

Guardian

GUARDIAN CAPITAL GROUP LIMITED
Report to Shareholders

SECOND QUARTER
JUNE 30, 2019

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the period ended June 30, 2019. All per share figures disclosed below are stated on a diluted basis.

For the periods ended June 30 (\$ in thousands, except per share amounts)	Three months		Six months	
	2019	2018	2019	2018
Net revenue	\$ 45,963	\$ 42,924	\$ 90,254	\$ 84,440
Operating earnings	12,590	11,302	23,766	21,806
Net gains	7,957	20,800	73,840	4,868
Net earnings attributable to shareholders	16,838	25,385	84,058	19,177
EBITDA ⁽¹⁾	\$ 16,238	\$ 13,313	\$ 30,747	\$ 25,784
Adjusted cash flow from operations ⁽¹⁾	12,524	10,310	23,028	19,074
Per share:				
Net earnings attributable to shareholders	\$ 0.62	\$ 0.90	\$ 3.06	\$ 0.68
EBITDA ⁽¹⁾	0.60	0.47	1.12	0.91
Adjusted cash flow from operations ⁽¹⁾	0.46	0.37	0.84	0.68

As at (\$ in millions, except per share amounts)	2019		2018	
	June 30	December 31	June 30	December 31
Assets under management	\$ 30,090	\$ 26,962	\$ 29,731	\$ 27,311
Assets under administration	18,784	17,385	17,980	17,385
Shareholders' equity	648	599	645	599
Fair value of corporate holdings of securities	663	627	670	627
Per share:				
Shareholders' equity ⁽¹⁾	\$ 23.73	\$ 21.57	\$ 22.74	\$ 21.57
Fair value of corporate holdings of securities ⁽¹⁾	24.29	22.58	23.63	22.58

Summary

The Company's Operating earnings for the quarter ended June 30, 2019 were \$12.6 million, an 11% increase compared to \$11.3 million during the same quarter in the prior year.

The Net revenue increased to \$46.0 million in the current quarter, \$3.1 million or 7% higher than the \$42.9 million in the same quarter in the prior year. The Net management fees earned in the current quarter increased \$1.1 million to \$23.4 million, a 5% increase from the same period in the prior year. This revenue growth outpaced the growth in AUM of 1% during the same period. The largest contribution to the revenue growth came from the UK operations, which continued to experience a significant inflow of new client assets into the Fundamental Global Equity strategy. The total AUM managed by the UK subsidiary has now surpassed \$3 billion. Partially offsetting the revenue growth from the Fundamental Global Equity strategy was the decrease in contributions from the domestic investment management business. Net commission revenue increased by \$1.4 million, or 13%, to \$12.6 million in the current quarter, compared to the same period in the prior year. The increase was due largely to the increase in annual servicing commissions in the Managing General Agency ("MGA"), benefiting from both the sale of life insurance policies sold in the prior year and the contributions from the advisors recruited in the recent periods. Administrative services income increased by \$0.6 million to \$3.9 million, when compared to the prior year. The increase was largely in the Financial Advisory Segment.

Partially offsetting the increase in Net revenue was the increase in expenses to \$33.4 million in the current quarter, \$1.8 million higher than the prior year expenses of \$31.6 million. The increased expenses were largely incurred in the UK investment management and the MGA businesses mentioned above to support the growth of these businesses, including increased employee compensation costs.

The volatility in the global financial markets continues to drive significant fluctuations in the quarterly Net gains (losses) associated with our Securities and consequently, the Net earnings attributable to shareholders. Net gains in the current quarter were \$8.0 million, compared to \$20.1 million in the prior year. The lower Net gains in the current quarter are directly related to the financial market performance during the current quarter compared to the same quarter in the prior year. Included in the Net gains for the current quarter are net gains realized on the disposal of 100,000 shares of the Bank of Montreal.

The Company's Net earnings attributable to shareholders in the current quarter were \$16.8 million, compared to \$25.4 million in the prior year. The lower Net earnings attributable to shareholders in the current quarter were largely due to lower Net gains recorded in the current quarter, partially offset by the increase in Operating earnings, as described above.

The Company's Assets Under Management ("AUM") surpassed the \$30 billion mark for the first time and is at \$30.1 billion as at June 30, 2019, compared to \$27.0 billion at the end of 2018 and \$29.7 billion as at June 30, 2018. The increase in AUM is due largely to the combination of positive financial market performance and successes in attracting net new assets into the Fundamental Global Equity strategy, partially offset by net outflows from the domestic

strategies. The Company's assets under administration were \$18.8 billion as at June 30, 2019, compared to \$17.4 billion at the end of 2018 and \$18.0 billion as at June 30, 2018.

EBITDA⁽¹⁾ for the current quarter was \$16.2 million, or \$0.60 per share, compared to \$13.3 million, or \$0.47 per share for 2018, a 22% increase (28% on a per share basis). Adjusted cash flow from operations⁽¹⁾ for the current quarter was \$12.5 million, or \$0.46 per share, compared to \$10.3 million, or \$0.37 per share for 2018, a 21% increase (24% on a per share basis). Both measures increased compared to last year due largely to improved Operating earnings and the increase in amortization expenses being included in Operating earnings, which are excluded in calculating these non-IFRS measures. In addition, the initial adoption of a new accounting standard, IFRS 16 – Leases, has also impacted the growth in these measures as the Company elected to apply the new standard on a modified retrospective basis and not restate prior period figures. As a result, the prior period figures are not entirely comparable with current period figures. The new accounting standard had the effect of increasing both the EBITDA⁽¹⁾ and the Adjusted cash flow from operations⁽¹⁾ by \$0.6 million in the current quarter, compared to what they would have been under the previous standard. Adjusting for the effects of the accounting changes, both the EBITDA⁽¹⁾ and the Adjusted cash flow from operations⁽¹⁾ increased by 17% from same quarter in the prior year.

The Company's Shareholders' equity as at June 30, 2019 was \$648 million, or \$23.73 per share⁽¹⁾, compared to \$599 million, or \$21.57 per share⁽¹⁾ as at December 31, 2018, and \$645 million, or \$22.74 per share⁽¹⁾, as at June 30, 2018. The fair value of the Company's Securities as at June 30, 2019 was \$663 million, or \$24.29 per share⁽¹⁾, compared to \$627 million, or \$22.58 per share⁽¹⁾, as at December 31, 2018, and \$670 million or \$23.63 per share⁽¹⁾, as at June 30, 2018.

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

Commentary

During the second quarter, returns experienced by investors continued to be positive, with the S&P/TSX Composite generating a total return of 2.6% for the second quarter and 16.2% for the six months ending June 30th. Similarly strong performance was experienced across the globe, with most developed and emerging markets posting positive returns, and the S&P 500 generating a total return of 4.3% (USD) for the quarter and 18.5% (USD) for the six months. Bonds also experienced strong absolute returns across the globe, as central banks continue to signal less hawkish views, with most around the world indicating pending monetary easing as their next moves, led by guidance from the US Federal Reserve. The shift among central banks does reduce significantly the risks of a monetary policy-driven downturn in the near term, which helps to maintain positive sentiment in the financial markets.

The US trade war with China remains the wild card. A deal may ultimately get done, but we are increasingly unsure. The persistent uncertainty associated with the potential escalation and expansion of trade tensions poses a bigger risk by clouding the outlook and restraining activity. Current tariffs and related supply chain uncertainty do appear to be having a notable slowing effect on the global economy. We expect the global economy will adjust to existing tariffs without slipping into a recession; however, growth is likely to be slower than it otherwise would have been. The negative effects of trade policy decisions are starting to be felt more materially and the longer these conflicts continue and the more barriers that are constructed, the more significant and lasting the impact will be. Escalating trade tensions remains the biggest downside risk to the global economic outlook.

In our core Investment Management business, generally positive market returns across most asset classes supported continued growth, as our total assets under management (AUM) increased to \$30.1 billion. Complementing the positive market returns was continued additions of new client money for our UK-based Fundamental Global Equity team, who ended the quarter with \$3 billion in assets under management, a 30% increase over the prior quarter. A strong pipeline of opportunities continue for the Fundamental Global Equity team and we remain optimistic that this team will continue to grow their AUM. Along with the satisfaction of increasing momentum in new client money flows, we are equally proud of the quality and breadth of clients that are subscribing to this strategy. We are excited about the successful onboarding of both institutional and retail intermediary clients, as well as about the geography represented, including North America, Australia, Europe and the Far East. The global outreach and distribution network upon which we have been working these last number of years offers a much greater path to future growth than simply what is represented by the recent successes; management is excited about the possible transformation this may bring to our Investment Management Segment.

On the other hand, our domestic equity strategies once again had net negative cash flows in the quarter, and continue to offset some of the strong new inflows into global assets. We continue to be optimistic that our strong legacy of excellence in servicing Canadian assets, as well as our continued commitment to sustain one of the largest teams of experienced professionals for the asset class, will position us to defend our market share and ultimately seek growth, at the same time as the negative sentiment for the asset class abates. Although our patience is undeniable, the temptation for investors to seek alternatives after a period of prolonged underperformance in the Canadian equity market relative to most other asset classes remains our greatest risk to loss of mandates. One of the most significant headwinds for Canadian investors has been the relatively large exposure to Energy in the Canadian equity benchmark and, as we are generally a long-only manager, even if we are defensively positioned against the sector, this does little to immunize the overall performance of the portfolios. Since valuations across the sector are at historic lows, with companies generally possessing higher-quality balance sheets than at any other period in recent memory, it tempts one to think that any minor swing in sentiment could unleash a strong increase in the value of the stocks in this sector.

As at the end of the second quarter, greater than one-third of our total AUM is now in non-Canadian assets, and greater than half of our AUM in equities is non-Canadian. It is important to recognize that our domestic AUM strategies tend to be lower-fee business than our global strategies, so despite the recent slower than overall market growth in our AUM, the changing AUM mix has resulted in a notable increase in management fee rates. The recent growth in global assets has come from a combination of the successes in our Fundamental Global Equities team in London and our acquisition of 70% of Alta Capital Management ("Alta") in Salt Lake City. However, we would like to highlight that our Global Systematics team, our initial success in managing non-Canadian assets in-house, is experiencing improving relative performance and showing exciting signs of success in implementing artificial intelligence and machine learning into their factor-based investment process. We have constructed an exceptionally talented quantitative-based team that has the capacity to create an array of investment solutions and offers a distinctively unique set of skills which enrich our product manufacturing capabilities and which we intend to exploit with new product launches. Our United States subsidiary, Alta, has met or exceeded our expectations; we are very happy with the quality of our partners in Salt Lake City, and the results they have provided since joining Guardian at the beginning of 2018. In the fourth quarter of 2018, we introduced a "40-Act" mutual fund in the United States, creating an opportunity for smaller clients to access Alta's flagship Large Cap strategy and ultimately setting in motion another mode of distribution for the broad investment management capabilities available across the Group. Active marketing of the strategy remains in the early stages of asset gathering, as we were successful in receiving approval from a targeted list of US retail intermediary platforms only in the second quarter. We look forward to winning some positive net sales flow as we embark on a sales campaign over the course of the year. Leveraging our organizational commitment to launching this fund for Alta, we launched a second "40-Act" fund in the current quarter, managed by our Global Systematics team, representing their flagship Global Dividend Equity strategy, and we have plans to launch a third "40-Act" fund before year end to be managed by our UK Fundamental Global Equity team. The decision to launch these funds is based on the premise that the same advisors who are using our strategies for their fee-based wrap clients will embrace the flexibility offered by the accessibility of the same strategy from us through a pooled vehicle for another segment of their clients. In order to support our quest for growth, Guardian is continuing to add high-quality individuals, who are capable of assisting in our plan to increase our sales and client relationship footprint in the areas in which we have operations, with the goal of growing our AUM, and providing first class service to our growing list of clients.

Worldsource, our Financial Advisory Segment, essentially serves two distinct types of independent financial advisors across Canada. It operates a mutual fund and securities dealership (the "Dealers") which focuses largely on independent financial advisors offering investment advice to their clients, and it operates a Managing General Agency (the MGA) which is focused on servicing independent life insurance advisors. During the first six months of the year, our leadership team has spent a great deal of time fortifying our core operations with strong new hires in key management roles, improving processes and prioritizing important improvements and upgrades to our technology. As part of this overall effort to improve on the quality of the experience delivered by our dealership, the leadership team has also spent a great deal of time engaging with our partners to ensure better communication between the Dealers and the advisors. We believe that relationships with our partners are much improved, given the feedback from the field and from the positive tone at our recent top advisors conference held in the second quarter. The implementation of a wholesale change to our core technology platform has been disruptive for all involved. However, we believe the lion's share of the issues we had in upgrading our systems are behind us, and now we are able to focus on delivering improved efficiencies and capabilities to the dealership, such as the recent announcement that our mutual fund dealer advisors can access ETFs for their clients. The leadership team overseeing our financial advisory segment now has the capacity and tools to work with our partners in delivering a holistic wealth management offering that will improve the competitiveness of our partners in growing their businesses and, in the process, attract new partners to our dealership ecosystem. Guardian has aspirations for Worldsource to continue to improve the wealth management ecosystem, with clear goals to increase the scale of our operations, including much higher levels of assets under administration.

In the second quarter, Worldsource's assets under administration (AUA) were only slightly up from the first quarter at \$18.8 billion, and up from \$17.4 billion at year end and \$17.9 billion at June 30, 2018. Worldsource AUA has largely a domestic bias, and the overall slight positive returns in domestic

assets for the quarter were offset by some client outflows from the dealership. The Dealers' business once again contributed positively to earnings, as it was able to grow revenues versus the prior year, and the higher expenses related to our system conversion last year are winding down. However, earnings were dampened by increased costs due to higher levels of staff in areas that were in need of additional resources, such as services targeting improved advisor relations. Our MGA business unit had another strong quarter, as the high-quality advisors recruited in the last couple of years produced another solid quarter of premiums on life insurance policies sold (a good indicator of future ongoing revenues). Net commission revenues, segregated fund gross sales and operating profit exhibited substantial growth over the already impressive results of the prior year. The stable and consistent growth in our MGA business unit continues to drive the majority of the earnings growth for the Financial Advisory segment. Overall, this segment contributed \$3.8 million in operating earnings in Q2, compared to \$2.1 million in the same quarter in the prior year, representing roughly 30% of the Company's total operating earnings. In the most recent report from Investor Economics, IDCWIN is ranked #1 MGA over the past 12 months in premiums on life insurance policies sold.

In addition to the strength in our Investment Management and Financial Advisory Segments, steady and reliable investment income from our corporate securities portfolio is an important contributor to our overall profitability. Much of this income has historically been derived from our holding of the Bank of Montreal ("BMO"), but the emphasis in this income is gradually being diversified away from BMO. In the quarter, we sold 100,000 shares of BMO, to fund a buyback of a block of Guardian shares acquired for cancellation, bringing the total number of BMO shares sold in 2019 to 200,000. As at the end of Q2, we held 3,500,000 shares of BMO, representing approximately 52% of our total investment portfolio, down from 53% at December 31, 2018 and 56% at June 30, 2018, with the balance of the portfolio largely allocated to global developed and developing equities. The fair value of the total portfolio was \$663 million at the end of Q2, up from \$627 million at December 31, 2018 and down slightly from \$670 million at June 30, 2018. We remain active in re-allocating the investment portfolio across various current and newly-incubated strategies as a means of further diversifying the portfolio. A conscious decision has been to remain exposed largely to equities; hence, the portfolio is expected to participate in the volatility of the broader equity markets. Another intended tilt for the portfolio has been toward global developed and developing markets. As a result, the portfolio is much more exposed, indirectly, to the US dollar, which we have chosen for the current time to leave unhedged versus the Canadian dollar.

Quality companies generate strong cash flows and, as we grow this financial metric, Guardian is committed to using its cash flow both to invest additional funds into the business for future growth, and to return an ever-increasing amount of cash to its shareholders. So far this year, Guardian has returned roughly \$7.5 million to shareholders through dividends in the first half, while \$10.4 million was used for share buybacks. Guardian has historically focused and will continue to allocate its free cash flow on operating growth initiatives, dividend growth and share buybacks. With respect to share buybacks, there has been a fair bit of public debate on the subject, as many executive management teams of public companies have prioritized this capital allocation decision, at the expense of increased leverage on the balance sheet or capital allocation toward growth investment for future business successes. At Guardian, our buyback program has not diminished the quality of our balance sheet, nor have we starved significant capital allocation for future growth initiatives. We have tried to balance all of the above with consideration for all constituents. We feel that we are stewards for all shareholders invested for the long term, in that we are prepared to buy more of the Company on behalf of existing shareholders, since, based on even the most conservatively-constructed valuation for our company and its holdings, it is traded considerably below its value. In April, we increased our quarterly dividend from \$0.125 per share to \$0.15 per share. The Board is pleased to report that we have declared the next quarterly dividend of \$0.15 per share, payable on October 18, 2019 to the shareholders of record on October 11, 2019.

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

On behalf of the Board,

(signed) "James Anas"

Chairman of the Board

August 8, 2019

(signed) "George Mavroudis"

President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at (\$ in thousands)	June 30 2019	December 31 2018
ASSETS		
Current assets		
Cash	\$ 25,730	\$ 32,362
Interest-bearing deposits with banks	42,481	61,730
Accounts receivable and other	49,191	43,854
Receivables from clients and broker	39,600	57,712
Income taxes receivable	1,247	3,259
Securities backing third party investor liabilities (note 3)	18,896	852
	177,145	199,769
Securities (note 4)	663,304	627,220
Other assets		
Deferred tax assets	1,525	1,469
Intangible assets	118,912	120,480
Equipment (note 2b)	16,756	5,170
Goodwill	33,908	34,760
	171,101	161,879
Total assets	\$ 1,011,550	\$ 988,868
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	\$ 126,051	\$ 138,902
Third party investor liabilities (note 3)	18,896	852
Client deposits	42,366	61,747
Accounts payable and accrued liabilities (note 6)	40,012	47,449
Lease obligations (note 2b)	2,173	--
Income taxes payable	2,729	605
Payable to clients	43,315	56,147
	275,542	305,702
Lease obligations (note 2b)	11,290	--
Other liabilities (note 6)	19,136	25,650
Deferred tax liabilities	47,129	45,537
Total liabilities	353,097	376,889
EQUITY		
Shareholders' equity		
Capital stock (note 7a and 7b)	18,734	19,060
Treasury stock (note 8a)	(28,230)	(25,235)
Contributed surplus	18,762	17,600
Retained earnings	625,562	560,479
Accumulated other comprehensive income	13,155	27,407
	647,983	599,311
Other equity interests	10,470	12,668
Total equity	658,453	611,979
Total liabilities and equity	\$ 1,011,550	\$ 988,868

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)

For the periods ended June 30 <i>(\$ in thousands, except per share amounts)</i>	Three months		Six months	
	2019	2018	2019	2018
Net revenue				
Commission revenue	\$ 37,338	\$ 35,414	\$ 73,495	\$ 70,134
Commissions paid to advisors	(24,699)	(24,202)	(48,561)	(48,515)
Net commission revenue	12,639	11,212	24,934	21,619
Management fees	24,870	23,832	48,668	47,558
Fees paid to referring agents	(1,502)	(1,584)	(3,139)	(3,054)
Net management fees	23,368	22,248	45,529	44,504
Administrative services income	3,929	3,308	7,917	6,742
Dividend and interest income (note 9)	6,027	6,156	11,874	11,575
	45,963	42,924	90,254	84,440
Expenses				
Employee compensation and benefits	19,266	17,574	38,429	36,675
Amortization	3,373	2,408	6,686	4,674
Interest	1,129	811	2,255	1,431
Other expenses	9,605	10,829	19,118	19,854
	33,373	31,622	66,488	62,634
Operating earnings	12,590	11,302	23,766	21,806
Net gains (note 10)	7,957	20,800	73,840	4,868
Earnings before taxes	20,547	32,102	97,606	26,674
Income tax expense	2,946	5,857	11,906	5,708
Net earnings	\$ 17,601	\$ 26,245	\$ 85,700	\$ 20,966
Other comprehensive income (loss)				
Net change in foreign currency translation on foreign subsidiaries	(9,515)	859	(15,290)	14,567
Comprehensive income	\$ 8,086	\$ 27,104	\$ 70,410	\$ 35,533
Net earnings attributable to:				
Shareholders	\$ 16,838	\$ 25,385	\$ 84,058	\$ 19,177
Non-controlling interests	763	860	1,642	1,789
	\$ 17,601	\$ 26,245	\$ 85,700	\$ 20,966
Net earnings attributable to shareholders per Class A and Common share (note 11)				
Basic	\$ 0.65	\$ 0.95	\$ 3.24	\$ 0.71
Diluted	0.62	0.90	3.06	0.68
Comprehensive income attributable to:				
Shareholders	\$ 7,835	\$ 25,802	\$ 69,806	\$ 32,618
Non-controlling interests	251	1,302	604	2,915
Comprehensive income	\$ 8,086	\$ 27,104	\$ 70,410	\$ 35,533

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2019	2018	2019	2018
Total equity, beginning of period	\$ 668,506	\$ 654,550	\$ 611,979	\$ 641,204
Shareholders' equity, beginning of period	656,167	623,493	599,311	634,416
Capital stock, beginning of period	19,060	19,500	19,060	19,871
Acquired and cancelled (note 7c)	(326)	--	(326)	(371)
Capital stock, end of period	18,734	19,500	18,734	19,500
Treasury stock, beginning of period	(28,230)	(25,645)	(25,235)	(23,764)
Acquired (note 8a)	--	--	(2,995)	(2,255)
Disposed of (note 8a)	--	122	--	496
Treasury stock, end of period	(28,230)	(25,523)	(28,230)	(25,523)
Contributed surplus, beginning of period	18,123	16,061	17,600	15,882
Stock-based compensation expense	639	285	1,162	814
Redemption of equity-based entitlements	--	(22)	--	(372)
Contributed surplus, end of period	18,762	16,324	18,762	16,324
Retained earnings, beginning of period	625,056	595,305	560,479	617,179
Initial application of new accounting standard (note 2)	--	--	767	--
Adjusted balance, beginning of period	625,056	595,305	561,246	617,179
Net earnings	16,838	25,385	84,058	19,177
Dividends declared and paid (note 7d)	(4,091)	(3,481)	(7,501)	(6,317)
Capital stock acquired and cancelled (note 7c)	(10,035)	--	(10,035)	(12,830)
Transactions with non-controlling interests (note 15)	(2,206)	(1,243)	(2,206)	(1,243)
Retained earnings, end of period	625,562	615,966	625,562	615,966
Accumulated other comprehensive income, beginning of period	22,158	18,272	27,407	5,248
Other comprehensive income (loss)	(9,003)	417	(14,252)	13,441
Accumulated other comprehensive income, end of period	13,155	18,689	13,155	18,689
Shareholders' equity, end of period	647,983	644,956	647,983	644,956
Other equity interests, beginning of period	12,339	15,821	12,668	6,788
Non-controlling interests, beginning of period	31,414	31,057	31,674	6,788
Initial application of new accounting standard (note 2b)	--	--	96	--
Adjusted balance, beginning of period	31,414	31,057	31,770	6,788
Net earnings	763	860	1,642	1,789
Other comprehensive income (loss)	(512)	442	(1,038)	1,126
Dividends declared and paid	(707)	(653)	(1,416)	(653)
Transactions with non-controlling interests (note 15)	(1,352)	(639)	(1,352)	(639)
Acquisition of subsidiary	--	--	--	22,656
Non-controlling interests, end of period	29,606	31,067	29,606	31,067
Obligations to non-controlling interests, beginning of period	(19,075)	(15,236)	(19,006)	--
On acquisition of subsidiary	--	--	--	(14,404)
Change during period	(61)	(736)	(130)	(1,568)
Obligations to non-controlling interests, end of period	(19,136)	(15,972)	(19,136)	(15,972)
Other equity interests, end of period	10,470	15,095	10,470	15,095
Total equity, end of period	\$ 658,453	\$ 660,051	\$ 658,453	\$ 660,051

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2019	2018	2019	2018
Operating activities				
Net earnings	\$ 17,601	\$ 26,245	\$ 85,700	\$ 20,966
Adjustments for:				
Income taxes (paid)	(2,658)	(2,371)	(5,771)	(5,900)
Income tax expense	2,946	5,857	11,906	5,708
Net (gains)	(7,957)	(20,800)	(73,840)	(4,868)
Amortization of intangible assets	2,537	2,172	5,030	4,213
Amortization of equipment	837	236	1,657	461
Stock-based compensation	639	285	1,162	814
Other non-cash expenses	(114)	15	(76)	132
	13,831	11,639	25,768	21,526
Net change in non-cash working capital items (note 13)	5,437	5,238	(11,827)	(10,030)
Net cash from operating activities	19,268	16,877	13,941	11,496
Investing activities				
Net disposition of securities	9,644	1,443	22,832	306
Income taxes (paid) refunded	--	(1,426)	--	(2,852)
Net (acquisition) deposition of securities backing third party investor liabilities	(16,332)	610	(17,673)	680
Acquisition of intangible assets	(3,052)	(21,762)	(7,188)	(24,100)
Acquisition of equipment	(216)	(1,060)	(396)	(1,212)
Disposition of intangible assets	296	219	1,602	1,238
Acquisition of subsidiary	--	--	--	(56,327)
Net cash used in investing activities	(9,660)	(21,976)	(823)	(82,267)
Financing activities				
Dividends paid to shareholders	(4,091)	(3,481)	(7,501)	(6,317)
Dividends paid to non-controlling interests	(707)	(653)	(1,416)	(653)
Acquisition and cancellation of capital stock	(10,361)	--	(10,361)	(13,201)
Acquisition of treasury stock	--	--	(2,995)	(2,255)
Disposition of treasury stock	--	122	--	496
Net proceeds (repayments) of bank loan and bankers' acceptances	(14,223)	15,137	(9,585)	100,658
Principal payments on lease obligations	(498)	--	(996)	--
Net subscriptions (redemptions) by third party investors	16,332	(610)	17,673	(680)
Acquisition of non-controlling interests (note 15)	(4,462)	(1,882)	(4,462)	(1,882)
Issuance of non-controlling interests (note 15)	904	--	904	--
Net cash from (used in) investing activities	(17,106)	8,633	(18,739)	76,166
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	(411)	10	(124)	201
Net change in net cash	(7,909)	3,544	(5,745)	5,596
Net cash, beginning of period	27,341	33,180	25,177	31,128
Net cash, end of period	\$ 19,432	\$ 36,724	\$ 19,432	\$ 36,724
Net cash represented by:				
Cash			\$ 25,730	\$ 39,508
Net bank indebtedness			(6,298)	(2,784)
			\$ 19,432	\$ 36,724

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**1. REPORTING ENTITY**

Guardian Capital Group Limited ("Guardian") is a publicly traded company with its common and class A shares listed on the Toronto Stock Exchange. Guardian is incorporated under the laws of the Province of Ontario, and its principal business office is located at Suite 3100, 199 Bay Street, Toronto, Ontario. Guardian, through its subsidiaries, provides investment management and financial advisory services to a wide range of clients in Canada and abroad, and maintains and manages a proprietary investment portfolio.

2. ACCOUNTING POLICIES**(a) Basis of Preparation**

These unaudited consolidated interim financial statements include the accounts of Guardian and its subsidiaries (together, the "Company") and have been prepared under International Financial Reporting Standards ("IFRS"), in compliance with International Accounting Standard 34, *Interim Financial Reporting*, using the same accounting policies as those used in the Company's consolidated financial statements for the year ended December 31, 2018, except for the adoption of IFRS 16 – *Leases* ("IFRS 16") on January 1, 2019. The new standard is discussed in more detail below. IFRS 16 was adopted on a modified retrospective basis and, as a result, the prior period figures have not been restated. Certain information and disclosure normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed in these consolidated interim financial statements. These consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2018, which are included in the Company's 2018 annual report.

These consolidated interim financial statements are presented in Canadian dollars, which is Guardian's functional currency. In these notes, all dollar amounts and numbers of shares are stated in thousands. Per share amounts and option exercise prices are stated in dollars and cents.

Certain reclassifications have been made to the 2018 comparative financial information in order to conform to the current period's presentation.

These consolidated interim financial statements were authorized for issuance by the Board of Directors of Guardian on August 8, 2019.

(b) Changes in Accounting Policies

On January 13, 2016, the IASB issued IFRS 16, which replaces IAS 17 *Leases* ("IAS 17") effective for annual periods beginning on or after January 1, 2019. The Company therefore implemented IFRS 16 effective January 1, 2019. The standard provides a single lease accounting model for lessees, under which substantially all leases will be accounted for as asset acquisitions financed by lease obligations. Generally, the asset and lease obligation recognized will be equal to the present value of the contractual lease payments, with adjustment for certain amounts. The asset will be recorded as "Right of use assets", as part of Equipment, and the liability will be recorded as either current or non-current "Lease obligations". The Right of use assets will be amortized over their useful lives, which will generally be the lease terms. Lease payments will be accounted for as repayments of the Lease obligation, and interest will be recorded on the obligation. This differs from IAS 17, under which most of the Company's leases did not result in the recognition of an asset or a lease obligation. In addition, under IAS 17, the Company's lease payments were expensed over the terms of the leases as part of Other expenses.

As permitted, the Company elected to apply IFRS 16 on a modified retrospective basis using certain practical expedients, which did not require restatement of prior period balances. As a result, the comparative figures for 2018 have not been restated and are not entirely comparable with the 2019 figures. As permitted, the Company elected not to apply IFRS 16 to leases whose terms end within 12 months of the initial application. The weighted average borrowing rate used to calculate the lease obligation on initial application was 4.10%. The difference between operating lease commitments as disclosed in the 2018 financial statements and the initial Lease obligations recognized is summarized in the following table:

Operating lease commitments, December 31, 2018	\$	15,990
Add: Extension option reasonably certain to be exercised		761
Less: Recognition exemption for leases whose terms end within 12 months of initial application		(170)
Effects of discounting using the incremental borrowing rate		(1,998)
Lease obligations recognized, January 1, 2019	\$	14,583

The Company's Right of use assets and Lease obligations consist primarily of leased office space. On initial application of IFRS 16, the Right of use assets were measured at the amount of the lease obligations less derecognized amounts of accrued rent payments, such as the effects of rent escalations and tenant inducements, as recorded under the previous standard. Accrued interest on the Lease obligation as at period end is included in Accounts payable and other liabilities.

The effects of IFRS 16 on the Company's consolidated financial statements compared to IAS 17 are summarized in the following tables:

	As at June 30, 2019	Activity for the six months	As at January 1, 2019
Increase (decrease) in reported amounts due to IFRS 16			
Balance sheet			
Assets:			
Equipment - Right of use assets	\$ 11,793	\$ (1,167)	\$ 12,960
Deferred tax assets	27	27	-
Liabilities:			
Accounts payable and accrued liabilities	(2,428)	58	(2,486)
Lease obligations: Current	2,173	26	2,147
Non-current	11,290	(1,146)	12,436
Equity:			
Retained earnings	693	(74)	767
Other equity interests	92	(4)	96

For the periods ended June 30, 2019	Three months	Six months
Statement of operations		
Expenses:		
Amortization	\$ 558	\$ 1,101
Interest	138	280
Other expenses	(636)	(1,276)
	60	105
Operating earnings	(60)	(105)
Income tax expense (recovery)	(16)	(27)
Net earnings (loss)	\$ (44)	\$ (78)
Net earnings (loss) attributable to:		
Shareholders	\$ (42)	\$ (74)
Non-controlling interests	(2)	(4)

The effect of IFRS 16 on other comprehensive income is substantially the same as for Net earnings, as presented in the above table.

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

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

Third party investor liabilities represent third party investors' proportionate ownership interests in the consolidated funds. The liabilities are payable on redemption of the units of the funds by the third party investors and will be settled with the proceeds from the disposition of securities backing third party investor liabilities. The value of the liabilities is equal to and varies with the value of the securities backing third party investor liabilities. These liabilities are classified as fair value through the profit or loss and are categorized as Level 1, based upon the fair value hierarchy.

4. SECURITIES

(a) Classification of securities

An analysis of the Company's securities by classifications and by the type of security is as follows:

As at	June 30 2019	December 31 2018
Fair value through profit or loss:		
Short-term securities (i)	\$ 22,819	\$ 36,257
Fixed-income securities (i)	18,132	20,746
Bank of Montreal common shares (ii)	345,450	329,670
Other equity securities (i)	251,284	210,987
Real estate fund (iii)	20,619	19,560
	658,304	617,220
Amortized cost securities (iv)	5,000	10,000
	\$ 663,304	\$ 627,220

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

(ii) Details of sales of Bank of Montreal common shares are as follows:

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Number of shares sold	100	--	200	--
Proceeds of disposition	\$ 10,573	\$ --	\$ 20,384	\$ --

(iii) During the current year, the Company increased its investment in the fund by \$1,032.

(iv) Amortized cost securities, which were acquired in 2018, are an investment in term preferred shares which mature on January 2, 2026 and have a dividend yield of 9% per annum. During the quarter, the issuer redeemed for par value \$5,000 of the term preferred shares.

(b) Fair value hierarchy

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

As at	June 30		December 31	
	2019	2018	2019	2018
Level 1	\$ 580,839	\$ 539,823		
Level 2	61,824	62,671		
Level 3	15,641	14,726		
	\$ 658,304	\$ 617,220		

During 2019 and 2018, there have been no transfers of securities between Levels.

(c) Changes in Level 3 securities

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

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Securities categorized as Level 3, beginning of period	\$ 15,854	\$ 12,691	\$ 14,726	\$ 11,905
Increase (decrease) in fair value	29	(299)	1,366	125
Foreign exchange translation adjustments	(242)	234	(451)	596
Securities categorized as Level 3, end of period	\$ 15,641	\$ 12,626	\$ 15,641	\$ 12,626

5. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at	June 30		December 31	
	2019	2018	2019	2018
Bank indebtedness	\$ 6,298	\$ 7,185		
Bankers' acceptances payable:				
Canadian dollar	67,483	74,668		
US dollar	52,270	57,049		
	\$ 126,051	\$ 138,902		

The bankers acceptances have maturities of one month or less and bear interest at rates negotiated in the bankers' acceptance market plus 0.50%, for Canadian dollar borrowings, and at LIBOR plus 0.50% for US dollar borrowings. Subsequent to current period end, all maturing borrowings were renewed on similar terms, except for approximately \$8,000, which were repaid.

6. OTHER LIABILITIES

Other liabilities are comprised of the following:

As at	June 30		December 31	
	2019	2018	2019	2018
Current:				
Deferred payment (i)	\$ 6,446	\$ --		
Non-current:				
Deferred payment (i)	--	6,644		
Obligations to non-controlling interests (ii)	19,136	19,006		
	\$ 25,582	\$ 25,650		

i) The deferred payment is the current value of the expected payments of \$5,000 USD arising from the 2018 acquisition of 70% of a U.S.-based investment management firm, due on or about January 1, 2020, discounted at 2.7%. Additional future payments, to a maximum amount of \$5,000 USD, may be payable over a period ending January 1, 2022, which payments are dependent upon the level of assets under management then achieved in certain investment strategies.

ii) Under the terms of the acquisition of the U.S.-based investment management firm in 2018, the minority partners of the business were granted options to sell their remaining interests in the firm to the Company in the future at prices determined based on the level of revenue achieved by the firm at that time. The obligation is an estimated present value of the payments potentially required on the earliest date the option becomes

exercisable and due, discounted at 11.6%. The options are exercisable at certain times between January 2, 2023 and January 2, 2033.

7. CAPITAL STOCK

(a) Authorized

- i) Unlimited preferred shares, without par value, may be issued in an unlimited number of series, the designation, rights, privileges, conditions and other provisions of which are to be determined by the Board of Directors.
- ii) Unlimited Class A non-voting shares without par value, convertible into common shares on a one-for-one basis, under certain terms and conditions, the highlights of which are as follows: if any person other than an insider of the Company acquires ownership, control or direction over in excess of 50% of the common shares, or makes an offer to all common shareholders to buy common shares, the Class A shares may be converted into common shares, unless holders of over 50% of the outstanding common shares do not accept the offer, or an equivalent offer is made to the holders of Class A shares.
- iii) Unlimited common shares, without par value, convertible on a one-for-one basis into Class A non-voting shares.

(b) Issued and outstanding

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

For the three months ended June 30	2019		2018	
	Shares	Amount	Shares	Amount
Class A shares				
Outstanding, beginning of period	25,277	\$ 18,304	25,793	\$ 18,722
Acquired and cancelled	(449)	(326)	--	--
Outstanding, end of period	24,828	17,978	25,793	18,722
Common shares				
Outstanding, beginning of period	3,128	756	3,219	778
Acquired and cancelled	--	--	--	--
Converted into class A	--	--	--	--
Outstanding, beginning and end of period	3,128	756	3,219	778
Total outstanding, end of period	27,956	\$ 18,734	29,012	\$ 19,500

For the six months ended June 30	2019		2018	
	Shares	Amount	Shares	Amount
Class A shares				
Outstanding, beginning of period	25,186	\$ 18,282	26,304	\$ 19,093
Acquired and cancelled	(449)	(326)	(511)	(371)
Converted from Common	91	22	--	--
Outstanding, end of period	24,828	17,978	25,793	18,722
Common shares				
Outstanding, beginning of period	3,219	778	3,219	778
Converted into class A	(91)	(22)	--	--
Outstanding, end of period	3,128	756	3,219	778
Total outstanding, end of period	27,956	\$ 18,734	29,012	\$ 19,500

(c) Issuer bid

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

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Shares purchased and cancelled				
Class A	449	--	449	511
Consideration paid	\$ 10,361	--	\$ 10,361	\$ 13,201
Less average issue price, charged to share capital	326	--	326	371
Excess consideration charged to retained earnings	\$ 10,035	--	\$ 10,035	\$ 12,830

Under the current NCIB, which commenced on November 21, 2018 and expires on November 20, 2019, the Company may purchase up to 161 common shares and 1,829 class A shares. As of June 30, 2019, the Company had purchased and cancelled nil common shares and 1,056 class A shares under the current NCIB.

(d) Dividends

The dividends the Company declared and paid on the common and Class A shares outstanding are as follows:

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Dividends declared and paid, per share	\$ 0.150	\$ 0.125	\$ 0.275	\$ 0.225

The Company has also declared dividends of \$0.15 per share payable on July 18, 2019 and October 18, 2019, on the common and class A shares outstanding. These dividends, which will be recognized on the record dates, have not been reflected in these financial statements.

8. TREASURY STOCK

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

(a) Changes in treasury stock

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

For the three months ended June 30	2019		2018	
	Shares	Amount	Shares	Amount
Balance, beginning of period	2,303	\$ 28,230	2,220	\$ 25,645
Disposed	--	--	(13)	(122)
Balance, end of period	2,303	\$ 28,230	2,207	\$ 25,523

For the six months ended June 30	2019		2018	
	Shares	Amount	Shares	Amount
Balance, beginning of period	2,173	\$ 25,235	2,178	\$ 23,764
Acquired	130	2,995	91	2,255
Disposed	--	--	(62)	(496)
Balance, end of period	2,303	\$ 28,230	2,207	\$ 25,523

During the periods, the treasury stocks were disposed for proceeds equal to their cost.

As at June 30, 2019, the treasury stock was composed of 30 common shares (2018 – 30) and 2,273 class A shares (2018 – 2,177).

(b) Equity-based entitlements

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

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

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Equity-based entitlements, beginning of period	1,175	1,055	1,045	1,011
Provided	--	--	130	91
Exercised	--	(2)	--	(49)
Equity-based entitlements, end of period	1,175	1,053	1,175	1,053

During the six months ended June 30, 2019, the equity-based entitlements provided had a fair value of \$2,995 (2018 - \$2,255).

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

(c) Option-like entitlements

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

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

For the three months ended June 30	2019		2018	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	1,128	\$ 9.64	1,165	\$ 9.62
Exercised	--	--	(11)	9.69
Option-like entitlements, end of period	1,128	\$ 9.64	1,154	\$ 9.62

For the six months ended June 30	2019		2018	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	1,128	\$ 9.64	1,167	\$ 9.62
Exercised	--	--	(13)	9.69
Option-like entitlements, end of period	1,128	\$ 9.64	1,154	\$ 9.62

No option-like entitlements were provided in 2018 or 2019.

These entitlements are accounted for as options and valued using the Black-Scholes option pricing model. The value of the entitlements provided is recorded as compensation cost over the vesting period of the entitlements, and is credited to contributed surplus. On exercise of an entitlement, treasury stock is reduced for the value of the entitlement exercised.

9. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Dividends on Bank of Montreal shares	\$ 3,500	\$ 3,441	\$ 7,150	\$ 6,882
Other dividends	1,380	1,709	2,257	2,844
Dividend income	4,880	5,150	9,407	9,726
Interest income	1,147	1,006	2,467	1,849
	\$ 6,027	\$ 6,156	\$ 11,874	\$ 11,575

10. NET GAINS

Net gains are composed of the following:

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Bank of Montreal common shares	\$ (3,436)	\$ 16,021	\$ 36,164	\$ 3,700
Other securities	9,803	5,885	34,657	3,777
Net gains on securities (i)	6,367	21,906	70,821	7,477
Disposal of intangible assets	165	124	468	605
Foreign exchange gains (losses) (ii)	1,425	(1,230)	2,551	(3,214)
	\$ 7,957	\$ 20,800	\$ 73,840	\$ 4,868

(i) Net gains (losses) on securities are a result of net amounts realized on disposal and changes in fair value of securities, securities backing third party investor liabilities, and the third party investor liabilities.

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

11. CALCULATIONS OF EARNINGS PER SHARE

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

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Weighted average number of Class A and common shares outstanding:				
Basic	25,767	26,796	25,959	26,885
Effects of outstanding entitlements from stock-based compensation plans	1,637	1,566	1,617	1,596
Diluted	27,404	28,362	27,576	28,481
Net earnings available to shareholders:				
Basic	\$ 16,838	\$ 25,385	\$ 84,058	\$ 19,177
Effects of outstanding entitlements from stock-based compensation plans	129	98	257	186
Diluted	\$ 16,967	\$ 25,483	\$ 84,315	\$ 19,363

12. BUSINESS SEGMENTS

The Company operates in the following three main business segments: a) Investment Management, which primarily involves earning management fees relating to investment management services provided to clients; b) Financial Advisory, which relates to the earning of commissions from the sale of life insurance products, mutual funds and other securities, and the continuing service commissions related to these products; and c) Corporate Activities and Investments, which relates substantially to the investment of the Company's securities holdings, as well as corporate management and development activities. The allocation of costs to individual business segments is undertaken to provide management information on the cost of providing services and a tool to manage and control expenditures.

(a) Business segments

The following tables disclose certain information about the Company's operations by business segment:

For the three months ended June 30	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net revenue										
Commission revenue	\$ --	\$ --	\$ 38,095	\$ 35,949	\$ --	\$ --	\$ (757)	\$ (535)	\$ 37,338	\$ 35,414
Commissions paid to advisors	--	--	(24,699)	(24,202)	--	--	--	--	(24,699)	(24,202)
Net commission revenue	--	--	13,396	11,747	--	--	(757)	(535)	12,639	11,212
Management fees	25,147	24,204	--	--	--	--	(277)	(372)	24,870	23,832
Fees paid to referring agents	(2,257)	(2,119)	--	--	--	--	755	535	(1,502)	(1,584)
Net management fees	22,890	22,085	--	--	--	--	478	163	23,368	22,248
Administrative services income	1,699	1,592	2,218	1,703	12	13	--	--	3,929	3,308
Dividend and interest income	135	132	579	500	5,204	5,350	109	174	6,027	6,156
	24,724	23,809	16,193	13,950	5,216	5,363	(170)	(198)	45,963	42,924
Expenses										
Employee compensation and benefits	10,651	10,198	5,758	4,854	2,857	2,522	--	--	19,266	17,574
Amortization	1,454	1,253	1,634	1,038	285	117	--	--	3,373	2,408
Interest	77	40	282	107	884	737	(114)	(73)	1,129	811
Other expenses	6,406	5,836	4,669	5,845	(1,414)	(727)	(56)	(125)	9,605	10,829
	18,588	17,327	12,343	11,844	2,612	2,649	(170)	(198)	33,373	31,622
Operating earnings	6,136	6,482	3,850	2,106	2,604	2,714	--	--	12,590	11,302
Net gains	(46)	(112)	170	125	7,833	20,787	--	--	7,957	20,800
Net earnings before income taxes	6,090	6,370	4,020	2,231	10,437	23,501	--	--	20,547	32,102
Income tax expense	1,514	1,887	1,057	524	375	3,446	--	--	2,946	5,857
Net earnings	\$ 4,576	\$ 4,483	\$ 2,963	\$ 1,707	\$ 10,062	\$ 20,055	\$ --	\$ --	\$ 17,601	\$ 26,245
Net earnings attributable to:										
Shareholders	\$ 4,123	\$ 3,964	\$ 2,653	\$ 1,366	\$ 10,062	\$ 20,055	\$ --	\$ --	\$ 16,838	\$ 25,385
Non-controlling interests	453	519	310	341	--	--	--	--	763	860
	\$ 4,576	\$ 4,483	\$ 2,963	\$ 1,707	\$ 10,062	\$ 20,055	\$ --	\$ --	\$ 17,601	\$ 26,245
Additions to segment assets:										
Intangible assets	\$ 346	\$ 47	\$ 2,706	\$ 21,762	\$ --	\$ --	\$ --	\$ --	\$ 3,052	\$ 21,809
Equipment	--	12	23	1,008	192	40	--	--	216	1,060

For the six months ended June 30	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net revenue										
Commission revenue	\$ --	\$ --	\$ 74,868	\$ 71,155	\$ --	\$ --	\$ (1,373)	\$ (1,021)	\$ 73,495	\$ 70,134
Commissions paid to advisors	--	--	(48,561)	(48,515)	--	--	--	--	(48,561)	(48,515)
Net commission revenue	--	--	26,307	22,640	--	--	(1,373)	(1,021)	24,934	21,619
Management fees	49,210	48,281	--	--	--	--	(542)	(723)	48,668	47,558
Fees paid to referring agents	(4,510)	(4,075)	--	--	--	--	1,371	1,021	(3,139)	(3,054)
Net management fees	44,700	44,206	--	--	--	--	829	298	45,529	44,504
Administrative services income	3,517	3,089	4,375	3,628	25	25	--	--	7,917	6,742
Dividend and interest income	372	196	1,197	845	10,134	10,114	171	420	11,874	11,575
	48,589	47,491	31,879	27,113	10,159	10,139	(373)	(303)	90,254	84,440
Expenses										
Employee compensation and benefits	21,141	21,761	11,596	9,674	5,692	5,240	--	--	38,429	36,675
Amortization	3,014	2,496	3,115	1,945	557	233	--	--	6,686	4,674
Interest	150	93	597	130	1,780	1,281	(272)	(73)	2,255	1,431
Other expenses	12,826	11,268	9,405	10,400	(3,012)	(1,584)	(101)	(230)	19,118	19,854
	37,131	35,618	24,713	22,149	5,017	5,170	(373)	(303)	66,488	62,634
Operating earnings										
Net gains	67	(286)	458	607	73,315	4,547	--	--	73,840	4,868
Net earnings before income taxes	11,525	11,587	7,624	5,571	78,457	9,516	--	--	97,606	26,674
Income tax expense	2,636	3,188	2,094	1,449	7,176	1,071	--	--	11,906	5,708
Net earnings	\$ 8,889	\$ 8,399	\$ 5,530	\$ 4,122	\$ 71,281	\$ 8,445	\$ --	\$ --	\$ 85,700	\$ 20,966
Net earnings attributable to:										
Shareholders	\$ 8,033	\$ 7,309	\$ 4,744	\$ 3,423	\$ 71,281	\$ 8,445	\$ --	\$ --	\$ 84,058	\$ 19,177
Non-controlling interests	856	1,090	786	699	--	--	--	--	1,642	1,789
	\$ 8,889	\$ 8,399	\$ 5,530	\$ 4,122	\$ 71,281	\$ 8,445	\$ --	\$ --	\$ 85,700	\$ 20,966
Capital expenditure on segment assets										
Intangible assets	\$ 884	\$ 66,576	\$ 6,249	\$ 24,090	\$ 55	\$ 10	\$ --	\$ --	\$ 7,188	\$ 90,676
Equipment	--	58	57	1,034	339	120	--	--	396	1,212
As at June 30, 2019 and December 31, 2018										
	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Segment assets and liabilities:										
Assets	\$ 187,433	\$ 213,673	\$ 151,058	\$ 160,984	\$ 729,485	\$ 671,774	\$ (56,426)	\$ (57,563)	\$ 1,011,550	\$ 988,868
Liabilities	91,437	113,757	124,734	137,439	193,352	183,256	(56,426)	(57,563)	353,097	376,889
(b) Geographic segments										
The Company's business units operate in various geographic regions. The Company attributes revenues generated by a business unit to the geographic region based on where that business unit resides. The following tables disclose certain information about the Company's operations by geography:										
	Canada		Rest of the World		Inter-Segment Transactions		Consolidated			
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
For the three months ended June 30										
Net revenue	\$ 35,489	\$ 34,561	\$ 10,587	\$ 8,400	\$ (113)	\$ (37)	\$ 45,963	\$ 42,924		
For the six months ended June 30										
Net revenue	\$ 71,608	\$ 68,694	\$ 18,877	\$ 16,023	\$ (231)	\$ (277)	\$ 90,254	\$ 84,440		
As at June 30, 2019 and December 31, 2018										
Non-current assets:										
Intangible assets	\$ 55,436	\$ 52,011	\$ 63,476	\$ 68,469	\$ --	\$ --	\$ 118,912	\$ 120,480		
Equipment	13,700	4,472	3,056	698	--	--	16,756	5,170		
Goodwill	13,827	13,826	20,081	20,934	--	--	33,908	34,760		

13. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	\$ 4,563	\$ 2,591	\$ 16,828	\$ 2,313
Accounts receivable and other	(1,188)	(1,115)	(5,630)	(2,957)
Receivables from clients and broker	1,439	5,923	18,112	20,107
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	(4,583)	(2,418)	(16,758)	(3,518)
Accounts payable and accrued liabilities	5,326	6,180	(11,547)	(5,868)
Payable to clients	(120)	(5,923)	(12,832)	(20,107)
	\$ 5,437	\$ 5,238	\$ (11,827)	\$ (10,030)

14. FINANCIAL RISKS MANAGEMENT

The Company's goal in managing financial risk is to evaluate the risks being taken against the benefits that are targeted to be achieved and, where those risks are deemed acceptable, to mitigate those risks, where practicable. The following are the more significant risks associated with financial instruments to which the Company is subject:

(a) Concentration risk

The Company is exposed to concentration risk associated with the \$345,450 (December 31, 2018 – \$329,670) investment in the Bank of Montreal shares, which represents 52% (December 31, 2018 – 53%) of the Company's securities. The Company monitors the investment in the Bank of Montreal shares on a continuous basis. A change in the price of the Bank of Montreal shares by 10% would result in gain or loss of \$34,545 (December 31, 2018 – \$32,967) being recorded in net gains.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, currency risk and interest rate risk.

i) Price risk

Price risk, the risk of a gain or loss resulting from movements in the price of securities, arises when the Company invests in securities. The Company is exposed to price risk with its investment in equity securities. Changes in the fair values of its securities are recognized in net gains (losses) and can have a significant impact on net earnings (loss) attributable to shareholders. This risk is managed through the use of professional in-house expertise, which takes a disciplined approach to investment management. The securities holdings, excluding the Bank of Montreal shares, are diversified by asset class and, as shown in the chart below, by geographical region. The chart also indicates the gain or loss which would be recognized in net earnings as a result of a 10% change in the market prices:

	Securities classified as fair value through the profit and loss	Gain or loss recognized from a 10% change in fair value
As at June 30, 2019		
Canada	\$ 35,765	±\$ 3,577
Rest of World	236,138	23,614
	\$ 271,903	±\$ 27,190
As at December 31, 2018		
Canada	\$ 37,842	±\$ 3,784
Rest of World	192,705	19,271
	\$ 230,547	±\$ 23,055

This risk is managed through the use of professional in-house portfolio management expertise, which takes a disciplined approach to investment management. The Company's securities holdings, excluding the Bank of Montreal shares, are also diversified by asset class and by geographical region. The price risk associated with Securities backing third party investor liabilities and Third party investor liabilities are equal to and offsetting as a result, they have been excluded from the above analysis.

ii) Currency risk

Currency risk, the risk of gain or loss resulting from the movements in currency exchange rates, arises when the Company or one of its subsidiaries is party to financial instruments which are denominated in a currency which is different from its functional currency. The Company's most significant exposure to currency risk is as follows:

As at	June 30 2019	December 31 2018
Bank loans and borrowings	\$ 52,270	\$ 57,049

The Company's currency risk is primarily related to the USD borrowings used to finance the purchase of a US-based subsidiary in 2018. This risk is mitigated by the USD cash flows which are generated by the US-based subsidiary which was acquired. A change in the CAD-USD exchange rate by +/-10% would result in a foreign exchange gain or loss of \$5,227 (2018 – \$5,704) being recognized in net earnings.

From time to time, a foreign subsidiary may hold an unhedged position in Canadian dollar, which can result in foreign exchange gains or losses in that subsidiary. Upon translation of their results on consolidation, the Company will recognize an equal and offsetting foreign currency translation adjustment in other comprehensive income. This is not considered to be a currency risk as there is no economic risk to the Company.

iii) Interest rate risk

Interest rate risk, the risk of increased or decreased income and expense or gain or loss resulting from changes in interest rates, arises when the Company is party to an interest-bearing financial instrument. The Company's significant exposure to interest rate risk is as follows:

As at	June 30 2019	December 31 2018
Interest rate sensitive assets:		
Interest-bearing deposits with banks	\$ 42,481	\$ 61,730
Short term securities	22,819	36,257
Fixed-income securities	18,132	20,746
Amortized cost securities	5,000	10,000
	\$ 88,432	\$ 128,733
Interest rate sensitive liabilities:		
Bank loans and borrowings	\$ 126,051	\$ 138,902
Client deposits	42,366	61,747
	\$ 168,417	\$ 200,649

The Company's most significant exposure to interest rate risk is through its bank loans and borrowings as detailed above. The interest rates on these borrowings are short-term and, if short-term rates increase, the Company's interest expense will increase and net earnings will decrease. The Company's investment in short-term securities partially offsets this risk.

The Company holds \$18,132 (2018 – \$20,746) of fixed-income securities which are primarily investments in fixed-income funds that are managed by its investment management subsidiary. The interest rate risk associated with these fixed-income securities is managed first by the Company, which selects appropriate fixed-income funds for various interest rate environments, and then by the subsidiary, which manages the funds selected in accordance with each fund's investment policy. The interest rate risk on interest-bearing deposits with banks and the client deposits, both of which arise in the international banking operation, is considered to be low, as the Company manages by matching interest and maturities on the assets and liabilities. The interest rate risk associated with the Company's investment in amortized cost securities is minimal, as the Company intends to hold this investment until maturity. Should the Company change its intention and dispose of the investment prior to maturity, it will be exposed to a gain or loss from changes in interest rates at that time.

(c) Credit risk

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

As at	June 30 2019	December 31 2018
Cash	\$ 25,730	\$ 32,362
Interest-bearing deposits with banks	42,481	61,730
Accounts receivable and other	49,191	47,113
Receivables from clients and broker	39,600	57,712
Short-term securities	22,819	36,257
Fixed-income securities	18,132	20,746
Amortized cost securities	5,000	10,000
	\$ 202,953	\$ 265,920

The cash and interest-bearing deposits with banks and the majority of the accounts receivable are due from major institutions. The Company reviews the credit worthiness of any banks with which it places deposits, and does not deal with a bank if it is not satisfied with the bank's financial strength. The accounts receivable and other are generally amounts due from customers, and the credit risk is low due to the nature of the Company's customers. The accounts receivable may also include amounts that the Company is owed from advisors for advances or commission reversals. The credit risk associated with these amounts is mitigated by management's review of the advisors' ability to repay the advances or commission reversals, particularly, before amounts are paid to the advisors. The credit exposure on receivables from clients is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary. There are controls on the amounts that these clients may borrow, depending upon the securities that are pledged. The credit risk associated with the Company's investment in fixed-income securities are managed by the periodic monitoring of the activities of the portfolio manager who, through diversification and credit quality reviews of the fund's investments, manages the fund's credit risk. The short-term securities are government treasury bills, investments in money market funds which hold government treasury bills or investment-quality securities with very short duration and low credit risk. The credit risk on the investment in the amortized cost security was minimized by a careful and through examination of the borrower's business by the Company and its in-house investment professionals.

(d) Liquidity risk

Liquidity risk, the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities, arises when the Company has insufficient resources to meet its obligations as they come due. The Company is exposed to liquidity risk because it has significant obligations which are due within one year. The Company manages this financial risk by managing its cash flows from operations, maintaining a portfolio of liquid securities, and by arranging for significant borrowing facilities, which are secured by collateral, with two major Canadian banks.

15. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

During the three-month period to June 30, 2019, the Company purchased from non-controlling shareholders, an additional 3.7% interest in its subsidiary, IDC Worldsource Insurance Networks Inc. ("IDCWIN") for cash consideration of \$4,462. This transaction reduced the carrying value of non-controlling interests by \$1,646 and retained earnings for the excess. In addition, an executive of IDCWIN subscribed for \$904 of IDCWIN shares which amounted to a 0.6% interest. This transaction increased the carrying value of non-controlling interests by \$294 and retained earnings for the excess. Following these transactions, the Company's ownership interest in IDCWIN was 84.7%.

16. FINANCIAL STATEMENT REVIEW

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the three and six month periods ended June 30, 2019 and the comparative periods in the year 2018, as well as to certain other prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2018 Annual Report and 2019 quarterly reports previously issued. This discussion and analysis has been prepared as of August 8, 2019.

On January 1, 2019, Guardian adopted IFRS 16 - Leases ("IFRS 16") on a modified retrospective basis. As permitted under this method, the prior period comparative figures were not restated and, as a result, they may not be entirely comparable. Readers are encouraged to refer to note 2(b) of Guardian's second quarter Consolidated Financial Statements for further discussion on the adoption of IFRS 16 and the impact on the current financial results.

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 June 30, 2019, Guardian had \$30.1 billion of assets under management ("AUM") and \$18.8 billion of assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately \$663.3 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 pages 27 and 28 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

CONSOLIDATED FINANCIAL RESULTS

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

For the periods ended June 30 (\$ in thousands, except per share amounts)	Three months		Six months	
	2019	2018	2019	2018
Net revenue	\$ 45,963	\$ 42,924	\$ 90,254	\$ 84,440
Expenses	33,373	31,622	66,488	62,634
Operating earnings	12,590	11,302	23,766	21,806
Net gains	7,957	20,800	73,840	4,868
Net earnings before income taxes	20,547	32,102	97,606	26,674
Income tax expense	2,946	5,857	11,906	5,708
Net earnings	\$ 17,601	\$ 26,245	\$ 85,700	\$ 20,966
Net earnings attributable to shareholders	\$ 16,838	\$ 25,385	\$ 84,058	\$ 19,177
EBITDA	16,238	13,313	30,747	25,784
Adjusted cash flow from operations	12,524	10,310	23,028	19,074
Diluted per share amounts				
Net earnings attributable to shareholders	\$ 0.62	\$ 0.90	\$ 3.06	\$ 0.68
EBITDA	0.60	0.47	1.12	0.91
Adjusted cash flow from operations	0.46	0.37	0.84	0.68

As at (\$ in millions, except per share amounts)	2019		2018	
	June 30	December 31	June 30	June 30
Assets under management	\$ 30,090	\$ 26,962	\$ 29,731	
Assets under administration	18,784	17,385	17,980	
Shareholders' equity	648	599	645	
Fair value of corporate holding of securities	663	627	670	
Diluted per share				
Shareholders' equity	\$ 23.73	\$ 21.57	\$ 22.74	
Fair value of corporate holding of securities	24.29	22.58	23.63	

RESULTS OF OPERATIONS

For the quarter ended June 30, 2019, Guardian's Operating earnings were \$12.6 million, an 11% increase from the \$11.3 million reported for the same quarter in 2018. The main drivers of the Operating earnings by segment are described below.

The Investment Management Segment's Operating earnings in the current quarter were \$6.1 million, compared to \$6.5 million in the same quarter in the prior year. The slight decrease is attributed to lower Operating earnings in the domestic investment management business, due largely to lower Net management fees resulting from outflows of Canadian equity assets over the past year. This decrease was largely offset by an increase in the Operating earnings contribution from the UK-based business, which is now contributing positive operating earnings. It continued to experience significant inflows of assets, surpassing \$3 billion in AUM as at June 30, 2019. As a result, in line with our strategic plan to diversify our revenue sources, the Global equity AUM exceeded Canadian equity AUM for the first time this quarter. In addition, Guardian's total AUM surpassed \$30 billion for the first time this quarter.

The Financial Advisory Segment's Operating earnings in the current quarter were \$3.8 million, compared to \$2.1 million in the same quarter in the prior year. The increase is attributable mainly to higher insurance annual service commission revenue. The increase was driven by the renewal of policies sold and contributions from the significant advisor recruitments completed in the prior year.

The Corporate Activities and Investments Segment's Operating earnings for the current quarter were \$2.6 million, compared to \$2.7 million during the same quarter in the prior year, due to slightly lower Dividend and interest income being earned within the consolidated investment funds in the current quarter.

With the continued volatility in the global financial markets, we continued to experience significant fluctuations in Net gains (losses). Net gains in the current quarter were \$8.0 million compared to net gains of \$20.8 million in the prior year. The current quarter's gains were largely from the increase in fair value of our investment in the proprietary investment funds, partially offset by the decrease in the fair value of the Bank of Montreal ("BMO") shares. Included in Net gains for the current quarter were net realized gains on disposal of 100,000 shares of BMO.

The Net earnings available to shareholders were \$16.8 million, compared to \$25.4 million in the prior year. The decrease was due to the decrease in Net gains, offset by the improvement in Operating earnings, as described above.

EBITDA for the quarter was \$16.2 million, a 22% increase compared to \$13.3 million in the same period in 2018. Adjusted cash flow from operations for the quarter was \$12.5 million, a 21% increase compared to \$10.3 million in the same period in 2018. The growth in both measures was due largely to improved Operating earnings and the increase in amortization expenses being included in Operating earnings, which are excluded in calculating EBITDA and Adjusted cash flow from operations. In Guardian, amortization expenses increase as we invest in intangible assets, which arise from the capitalization of amounts invested to recruit advisors or from those arising from business acquisitions. The adoption of IFRS 16 also resulted in both EBITDA and Adjusted cash flow from operations being higher by \$0.6 million in the current quarter than it would have been under the previous accounting standard. Without the changes in the accounting standard, the growth in EBITDA and Adjusted cash flow from operations, compared to the same period in 2018, would have been 17% each. Further discussion on the adoption of IFRS 16 is provided under Changes in Accounting Policies on page 26 of this report.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

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

As at (\$ in millions)	2019		2018	
	June 30	December 31	June 30	June 30
Assets under management				
Institutional				
Canadian equities	\$ 9,054	\$ 9,122	\$ 10,631	
Global equities	10,525	8,089	8,222	
Fixed income	7,407	6,900	7,877	
	26,986	24,111	26,730	
Private wealth and international private banking	3,104	2,851	3,001	
Total assets under management	\$ 30,090	\$ 26,962	\$ 29,731	
Assets under administration	\$ 18,784	\$ 17,385	\$ 17,980	

Guardian achieved a few milestones this quarter with its AUM. Firstly, AUM surpassed the \$30 billion level, ending the quarter at \$30.1 billion. The new high was achieved, largely due to the positive financial market performance and the significant inflows of client assets into the Fundamental Global Equity strategy, managed by our UK subsidiary, partially offset by net outflows of assets from our domestic strategies. Secondly, with the continued growth in our Fundamental Global Equity assets, the total client assets managed by the UK subsidiary has now surpassed \$3 billion. As a result, Guardian's total Global equity assets, at \$10.5 billion, has surpassed Canadian equity asset levels for the first time. This is significant as it further diversifies Guardian's revenue sources from the previously concentrated exposure to Canadian equities.

The AUA at June 30, 2019 was \$18.8 billion, a new historic high, up from \$17.4 billion at the end of 2018 and \$18.0 billion as at June 30, 2018. Successful recruitment of advisors in the past year, net sales and the positive global financial market performance contributed to the growth in AUA.

REVENUES AND EXPENSES

Net Management Fees

Management fees, net of fees paid to referring agents ("Net management fees") earned by Guardian is generated by providing continuing investment management services to client AUM. Net management fees generated for the quarter ended June 30, 2019 were \$23.4 million, a 5% increase from the \$22.2 million in the same quarter in the prior year. The following analysis of Net management fees should be read in conjunction with note 12 (a) – Business Segments in Guardian's second quarter Consolidated Financial Statements. The totals for the Segment quoted below are before inter-segment transactions.

Institutional Net management fees earned in the current quarter were \$18.6 million, a 5% increase from the \$17.8 million a year earlier. The increase in institutional Net management fees was driven largely by the growth in the Fundamental Global Equity management fees in our UK operations. Partially offsetting this was the lower Net management fees earned in the domestic business. As our Global equity strategies earn fees at higher rates, the recent growth in the Fundamental Global Equity strategy assets has continued to increase our average fees earned on client assets. This is evident in our revenue growth of 5%, while the AUM only grew by 1%, when comparing the current quarter to the same period in the prior year. Net management fees from our Global equity AUM now accounts for 60% of total institutional Net management fees, compared to 48% in the same quarter in 2018. The institutional Net management fees represents approximately 81% of the Segment's Net management fee revenue, up slightly from 80% in the same quarter in 2018. Private wealth and international private banking Net management fees earned in the current quarter amounted to \$4.3 million, substantially unchanged from \$4.4 million in the prior year.

Net Commission Revenue

Net commission revenue earned by Guardian 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. Net commission revenue generated for the current quarter was \$12.6 million, a 13% increase from \$11.2 million a year earlier. The following analysis of net commission revenue should be read in conjunction with note 12 (a) – Business Segments in Guardian's second quarter Consolidated Financial Statements. The totals for the Segment quoted below are before inter-segment transactions.

Net commissions from the MGA business in the current quarter were \$9.5 million, a 20% increase compared to \$7.9 million a year earlier, benefiting from continued organic growth and the successful advisor recruitments completed in 2018. Included in this growth is a \$1.5 million increase in annual service commission revenue to \$5.0 million. The contractual premiums on life insurance policies sold ("Premiums Sold") were \$22 million in the current quarter, compared to \$26 million in the prior year. As we continue to focus on recruiting top producing advisors with larger books of business, the Premiums Sold tend to fluctuate quarter-to-quarter. These advisors generally deal with significantly larger policies, and as a result, depending on the timing of these policies being placed, the Premiums Sold can fluctuate. As these policies are renewed in subsequent years, our MGA will receive annual service commissions associated with these premiums. Net commissions from the Dealers business in the current quarter were \$3.8 million, no change from 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 in the Investment Management Segment. This income amounted to \$3.9 million for the current quarter, as compared to \$3.3 million in the prior year. Both the Investment Management and Financial Advisory Segments contributed to the increase in fee revenue, with larger contribution coming from the Dealer business driven by increased transaction activities.

Dividend and Interest Income

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

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2019	2018	2019	2018
Dividends on Bank of Montreal shares	\$ 3,500	\$ 3,441	\$ 7,150	\$ 6,882
Other dividends	1,380	1,709	2,257	2,844
Dividend income	4,880	5,150	9,407	9,726
Interest income	1,147	1,006	2,467	1,849
	\$ 6,027	\$ 6,156	\$ 11,874	\$ 11,575

Dividend income remained substantially the same when comparing the current quarter to the same quarter in the prior year. Dividends on the Bank of Montreal shares increased slightly as the dividend rate increased since the second quarter of 2018, partially offset by a reduction in the number of shares held in the current quarter. Other dividends decreased compared to last year, due to the reallocation of investments away from dividend growth strategies in late 2018 and into a US Large Cap "40 Act" fund managed by our US subsidiary. The higher interest income earned in the current quarter compared to the same quarter in the prior year is due largely to higher interest-spread income being earned in the Dealers business.

Expenses

Guardian's expenses increased to \$33.4 million in the current quarter, compared to \$31.6 million in the same quarter in the prior year. Expenses in the Investment Management Segment increased by \$1.3 million over the prior year. The most significant increase occurred in the UK operations arising from marketing and distribution related activities and incentive compensation. In the Financial Advisory Segment, the expenses increased by \$0.5 million, largely in the MGA business, as we continue to add human capital and technology resources to support the growing business. The Dealers business expenses are relatively flat, compared to the prior year. However, the prior year includes a one-time charge related to its technology platform conversion. Excluding the one-time charge in the prior year, the expenses are higher than the prior year. This increased level of expenses is expected over the short term as we continue to invest into the business, to leverage the new technology platform and add additional staff to enhance advisor experience and improve operational efficiencies. Expenses in the Corporate Activities and Investments Segment, after allocation to the other segments,

remained relatively flat compared to the same quarter in the prior year.

NET GAINS

The following chart summarizes the main components of net gains during the current period, with the prior year as a comparison.

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Bank of Montreal common shares	\$ (3,436)	\$ 16,021	\$ 36,164	\$ 3,700
Other securities	9,803	5,885	34,657	3,777
Net gains on securities	6,367	21,906	70,821	7,477
Disposal of intangible assets	165	124	468	605
Foreign exchange gains (losses) (ii)	1,425	(1,230)	2,551	(3,214)
	\$ 7,957	\$ 20,800	\$ 73,840	\$ 4,868

With the increased volatility in the global financial markets, the fair values of Guardian's securities have experienced significant fluctuations, resulting in significant volatility in Net gains (losses). In the current quarter, Net gains of \$9.8 million were recognized on other securities, largely our investments in non-domestic proprietary investment funds. However, the Company's investment in the Bank of Montreal ("BMO") shares resulted in Net losses of \$3.4 million in the quarter. Netted against the current quarter's Net losses of \$3.6 million on BMO shares are realized gains recognized on disposal of 100,000 shares in the current quarter. In addition, the current quarter's Net gains include foreign exchange Net gains of \$1.4 million, arising mainly from the effects of the strengthening Canadian dollar on the US dollar loan.

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	2019		2018	
(\$ in thousands, except per share amounts)	June 30	December 31	June 30	
Securities, carried at fair value				
Proprietary investment strategies				
Fixed-income securities	\$ 18,132	\$ 20,746	\$ 21,220	
Canadian equities	11,133	13,159	18,318	
Global equities	225,920	182,954	217,540	
Real estate	20,619	19,560	14,572	
	275,804	236,419	271,650	
Bank of Montreal common shares	345,450	329,670	375,846	
Other securities	37,050	51,131	12,694	
	658,304	617,220	660,190	
Securities, carried at amortized cost	5,000	10,000	10,000	
Securities	\$ 663,304	\$ 627,220	\$ 670,190	
Total securities per share, diluted	\$ 24.29	\$ 22.58	\$ 23.63	

Guardian's securities as at June 30, 2019 had a fair value of \$663 million, or \$24.29 per share, diluted, compared with \$627 million, or \$22.58 per share, diluted, at the end of 2018. Shareholders' equity as at June 30, 2019 amounted to \$648 million, or \$23.73 per share, diluted, compared to \$599 million, or \$21.57 per share, diluted, at the end of 2018.

Guardian further reduced its exposure to BMO in the current quarter by disposing of 100,000 shares for total proceeds of \$10.6 million. Including 100,000 shares disposed of in the first quarter of 2019, the total proceeds on the disposal of 200,000 shares in 2019 were \$20.4 million. As at June 30, 2019, BMO represented 52.1% of the total securities (Dec. 31, 2018 – 52.6%).

In addition to its strong balance sheet, Guardian has, under various borrowing arrangements, total borrowing capacity of \$155 million. As at June 30, 2019, the total borrowings amounted to \$126.1 million, \$12.8 million lower compared to \$138.9 million at the end of 2018. Guardian's Adjusted cash flow from operations for the current quarter was \$12.5 million, a 21% increase compared to \$10.3 million in the same quarter in 2018. Guardian uses its Adjusted cash flow from operations primarily to fund its working capital, quarterly dividends, share repurchases under its Normal Course Issuer Bid, capital expenditures and, when possible, debt repayments. From time to time, Guardian may use a combination of debt and partial disposal of Securities to help finance temporary working capital requirements or capital expenditures.

During the current quarter, using a combination of Adjusted cash flow from operations and the proceeds from disposal of BMO shares, Guardian funded its working capital needs, paid dividends, repurchased its shares, purchased additional interest in a subsidiary from minority shareholders and reduced debt. Subsequent to the current quarter end, Guardian further reduced debt by \$8.0 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 June 30, 2019 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 126,051	\$ 126,051	\$ --	\$ --	\$ --
Client deposits	42,366	42,366	--	--	--
Payable to clients	43,315	43,315	--	--	--
Accounts payable and accrued liabilities	42,741	42,741	--	--	--
Other liabilities	19,136	--	--	19,136	--
Investment commitments	27,124	27,124	--	--	--
Scheduled lease payments	15,221	2,670	5,048	4,022	3,481
Third party investor liabilities	18,896	18,896	--	--	--
Total contractual obligations	\$ 334,850	\$ 303,163	\$ 5,048	\$ 23,158	\$ 3,481

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:

For the three months ended (\$ in thousands)	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Net revenue	\$ 45,963	\$ 44,291	\$ 44,300	\$ 42,773	\$ 42,924	\$ 41,516	\$ 39,097	\$ 36,315
Operating earnings	12,590	11,176	12,137	12,444	11,302	10,504	13,046	10,505
Net gains (losses)	7,957	65,883	(89,001)	28,481	20,800	(15,932)	38,186	4,068
Net earnings (loss)	17,601	68,099	(69,652)	35,079	26,245	(5,279)	44,466	12,555
Net earnings (loss) attributable to shareholders	16,838	67,220	(70,449)	34,320	25,385	(6,208)	43,982	12,310
Shareholders' equity	647,983	656,167	599,311	670,382	644,956	623,511	634,416	608,013

Per Class A and Common share (in \$)

Net earnings (loss) attributable to shareholders								
Basic	\$ 0.65	\$ 2.57	\$ (2.63)	\$ 1.28	\$ 0.95	\$ (0.23)	\$ 1.59	\$ 0.44
Diluted	0.62	2.43	(2.63)	1.21	0.90	(0.23)	1.51	0.42
Shareholders' equity								
Basic	\$ 25.26	\$ 25.14	\$ 22.85	\$ 24.98	\$ 24.06	\$ 23.27	\$ 23.20	\$ 21.87
Diluted	23.73	23.66	21.57	23.57	22.74	21.98	21.88	20.67
Dividends paid	\$ 0.150	\$ 0.125	\$ 0.125	\$ 0.125	\$ 0.125	\$ 0.100	\$ 0.100	\$ 0.100

As at

<i>Total Class A and Common shares outstanding</i> (in thousands of shares)	27,956	28,405	28,405	29,012	29,012	29,012	29,523	30,023
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Over the past 8 quarters presented above, Guardian's Net revenue has generally shown an upward trend, although it has fluctuated from time to time. These fluctuations have influenced operating earnings and have been driven largely by the factors described below.

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

Net revenue in the fourth quarter of 2018 increased although the AUM and AUA decreased, due to the increase in insurance commission revenues offsetting the reduction in other revenues during the period. The most significant increase was in the annual service commission revenue which are not correlated to the financial markets. In 2018, the increases in net revenue included the contributions from Alta, which was acquired on January 1, 2018. Net gains (losses) reflect changes in fair values of the securities during each period, driven by the volatility of the financial markets in which Guardian's securities trade. The volatility of Net gains (losses) also directly impacted Net earnings (losses) attributable to shareholders during those periods.

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

RISK FACTORS

The largest business segment at Guardian is investment management, in which clients look to Guardian to manage risks within their portfolios. Guardian applies many of the same risk management principles to its business as a whole. One of these principles is that risk can pose challenges as well as provide opportunities, depending upon the effectiveness of the way in which it is managed. Readers are encouraged to refer to note 14 to Guardian's second quarter 2019 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 14 to Guardian's second quarter 2019 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 \$345 million in Bank of Montreal shares, which represents 52% (December 31, 2018 – 53%) of Guardian's securities at fair value. 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, having sold over 1.4 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 57% (December 31, 2018 - 59%) domestic equities, consisting mainly of the Bank of Montreal shares, 36% (December 31, 2018 – 31%) non-Canadian equities and 7% (December 31, 2018 – 10%) short-term investments and 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. Following the acquisition of Alta, Guardian recognized Obligations to non-controlling interests on its balance sheet, which are denominated in US dollars. As these are transactions between equity interests, the changes in the value of the obligation, including changes resulting from foreign exchange rate fluctuations, are recorded directly in the Statements of Equity. This currency risk is managed in a manner similar to the investments in other foreign subsidiaries. These 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 substantially offsetting Net gains (losses) being recorded in Other comprehensive income. Readers are encouraged to refer to note 14 in Guardian's second quarter Consolidated Financial Statements for further discussion and sensitivity analysis.

Credit Risk

Guardian's credit risk is generally considered to be low. Because of the nature of Guardian's business, its receivables are mainly from large institutions, which are considered to pose a relatively low credit risk, or from individuals, which are secured by marketable securities. Guardian periodically reviews the financial strength of all of its counterparties, and if the circumstances warrant it Guardian takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in fixed-income mutual funds is managed by monitoring of activities of the portfolio manager who, through diversification and credit quality reviews of the funds' investments, manage the funds' credit risk. The credit risk associated with the investment in amortized cost securities is managed by monitoring the issuer's operations through discussions with the issuer's management. From time to time, advisors in the Financial Advisory segment may owe to the Dealers or the MGA, advances made or amounts resulting from the reversal of commissions. The credit risk associated with these amounts is mitigated by management's review of the advisors' ability to repay the advances or the potential commission reversals, particularly in the MGA business, before amounts are paid to the advisors.

Interest Rate Risk

Guardian's most significant exposure to interest rate risk is through its bank loans and borrowings. The interest rates on these borrowings are short-term, and Guardian's interest expense and net earnings will fluctuate with the changes in short-term rates. Guardian manages interest rate risk in its international banking operations, through matching the interest rates and maturity dates of client deposit liabilities with the assets, interest-bearing deposits with banks. The interest rate risk associated with Guardian's investment in fixed-income mutual funds is managed by monitoring the activities of the portfolio manager, who manages this risk by positioning the portfolio for various interest rate environments. The interest rate risk associated with the investment in amortized cost securities is not actively managed, as it is a long-term investment, but monitored by management.

Liquidity Risk

Guardian manages liquidity risk through the monitoring and managing of cash flows from operations, by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total \$155 million through two 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, the use of information technology can also introduce operational risk related to its use by employees, which may result in errors and lead to financial loss to Guardian. In addition, through the use of mobile devices and the use of internet, such as emails and other online capabilities, Guardian is exposed to information security and other technology disruption risks that could potentially have an adverse impact on its business. Guardian actively monitors these risks and continues to develop controls to protect against such threats that are becoming more sophisticated and pervasive.

Competition Risk

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

CHANGES IN ACCOUNTING POLICIES

On January 1, 2019, Guardian adopted IFRS 16 – *Leases*. The new standard provides a single lease accounting model for lessees, under which substantially all leases will be accounted for as asset acquisitions, financed by lease obligations. The Right of use assets and Lease obligations recognized will be equal to the present value of the contractual lease payments adjusted for certain items. The Right of use assets are amortized over their useful lives, which will generally be the lease terms. Lease payments will be accounted for as repayments of the Lease obligation, and interest will be recorded on the obligation. This differs from the prior standard, under which most of Guardian's leases did not result in the recognition of an asset or a lease obligation, and Guardian's lease payments were expensed over the term of the leases as part of Other expenses.

IFRS 16 was implemented on a modified retrospective basis, which resulted in the effects of the initial application of the new standard being recorded only in the current period, with no restatement of prior period results. Therefore, current period results may not be entirely comparable to prior periods.

The adoption of IFRS 16 did not have a significant impact on Guardian's Operating earnings. However, it resulted in the reclassification of expenses from Other expenses to Amortization and Interest expenses, and the reclassification of cash flows from Operating activities to Financing activities. The reclassification of expenses and cash flows resulted in increases in both EBITDA and Adjusted cash flow from operations under the new standard by \$0.6 million and \$0.6 million, respectively, in the current quarter. The adoption of IFRS 16 is discussed in further detail in note 2 (b) of Guardian's second quarter 2019 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, 2018, Consolidated Financial Statements. The most significant accounting estimates are related to the impairment assessment of goodwill and the determination of fair value of securities which are classified as level 3 within the fair value hierarchy. These valuation approaches are most sensitive to the levels of AUA and annual service fees for goodwill and the level of AUM for the determination of fair value of level 3 securities. No changes to the valuation methodologies were made during the current quarter.

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

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

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

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2019	2018	2019	2018
Net earnings, as reported	\$ 17,601	\$ 26,245	\$ 85,700	\$ 20,966
Add (deduct):				
Income tax expense	2,946	5,857	11,906	5,708
Net (gains)	(7,957)	(20,800)	(73,840)	(4,868)
Stock-based compensation	639	285	1,162	814
Interest expense	1,129	811	2,255	1,431
Amortization	3,373	2,408	6,686	4,674
Non-controlling interests	(1,493)	(1,493)	(3,122)	(2,941)
EBITDA	\$ 16,238	\$ 13,313	\$ 30,747	\$ 25,784

The adoption of IFRS 16 on January 1, 2019 resulted in an increase in EBITDA by \$0.6 million in the quarter, due to a reduction in other expenses and an increase in Interest and Amortization expenses.

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

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

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

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2019	2018	2019	2018
Net cash from operating activities, as reported	\$ 19,268	\$ 16,877	\$ 13,941	\$ 11,496
Add (deduct):				
Net change in non-cash working capital items	(5,437)	(5,238)	11,827	10,030
Non-controlling interests	(1,307)	(1,329)	(2,740)	(2,452)
Adjusted cash flow from operations	\$ 12,524	\$ 10,310	\$ 23,028	\$ 19,074

The adoption of IFRS 16 on January 1, 2019 resulted in an increase in Adjusted cash flow from operations by \$0.6 million in the quarter, as a portion of the lease payments made were reclassified from Other expenses to Interest and Amortization expenses and Cash flows were reclassified from Operating activities to Financing activities.

Shareholders' equity per share

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

Securities per share

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

OUTLOOK

Equity markets continued to recover from the lows of the fourth quarter of 2018, while bonds have been rallying. Part of the reason is the increasing likelihood that many major central banks will abort their previous plans to hike interest rates, and indeed start to cut rates. This is in an attempt to stimulate economies that have been slowing due to previous rate hikes and the effects of trade frictions, primarily between the US and China. In the short term, markets often rally after the initial interest rate cuts, which should give us time to assess the situation. Our best forecast is that an end to the trade war and an economic recovery in China, driven by economic stimulus applied in China over the past year, will help improve global growth. If this is the case, the yield curve should steepen, and corporate earnings should trend up. Given that stock valuations are not relatively high, particularly when measured against bond yields, this scenario should lift stock prices. If the trade war persists for significantly longer than expected, there is likely to be damage to the economy, and subdued equity market performance.

For Guardian, the performance of equity and fixed-income markets is a very important factor in our short-term financial performance, both because of our company-owned investments and because much of our revenue is tied to fees based on the size of our AUM or AUA. The performance of the markets is also a totally exogenous factor, which we have no way of controlling. As a result, we must focus on investing in the growth of our business, while containing costs as much as practical. In order to succeed in growing our business, we must continually innovate and raise awareness of our capabilities. To assist us in our goal, we continuously take advantage of our strong portfolio management capability and our balance sheet to seed, incubate and develop new strategies which, in the fullness of time, have a chance to become strong revenue-generating parts of our business. We will continue to invest in these new products, in the hope that we will be able to offer more and better investment solutions to clients and prospective clients.

Strong investment track records are definitely helpful in finding clients, and there are certainly some instances of prospective clients finding us in a database and initiating contact with us, but in order to truly maximize our potential, we need to increase awareness of the company and our capabilities. Over the past few years, Guardian has focused on restructuring and improving our sales and marketing capabilities, both within Canada and in other parts of the world. We will continue to seek capable and seasoned people to assist us in our efforts to raise awareness of our firm, and ultimately increase our net sales.

We also expect to continue considering potential acquisitions in the Investment Management and MGA space. With respect to our Dealer businesses, we will continue to invest in technology improvements in order to offer the best solutions to our partner advisors, and focus on developing strategies to assist our partners in managing their client assets efficiently and winning new business. Over time, we expect we will strategically raise cash through continuing sales of our BMO position and other investments on our balance sheet, to pursue opportunities that arise, whether they are seeding new products, making acquisitions, or opportunistic share buybacks.



Our history. Your future.

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