MANAGEMENT'S DISCUSSION AND ANALYSIS

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In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the period ended March 31, 2019 and the comparative period 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. This discussion and analysis has been prepared as of May 9, 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 first 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 place on these statements, as a number of factors could cause actual results to differ materially from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, and other factors.

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered in Canada and operates in Canada, the United Kingdom, the United States and the Caribbean. As at March 31, 2019, Guardian had $29.6 billion of assets under management ("AUM") and $18.7 billion of assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately $674 million at the end of the quarter.

USE OF NON-IFRS MEASURES

Guardian uses certain measures to evaluate and assess the performance of its business, which are not defined within International Financial Reporting Standards ("IFRS"). These measures are EBITDA, EBITDA per share, adjusted cash flow from operations, adjusted cash flow from operations per share, equity per share, and securities per share. Non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. However, Guardian believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these measures in analyzing Guardian's results. On page 24 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

CONSOLIDATED FINANCIAL RESULTS

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

For the three months ended March 31 *($ in thousands, except per share amounts)*		**2019**		2018
Net revenue	**$**	**44,291**	$	41,516
Expenses		**33,115**		31,012
Operating earnings		**11,176**		10,504
Net gains (losses)		**65,883**		(15,932)
Net earnings before income taxes		**77,059**		(5,428)
Income tax expense		**8,960**		(149)
Net earnings (loss)	**$**	**68,099**	$	(5,279)
Net earnings (loss) attributable to shareholders	**$**	**67,220**	$	(6,208)
EBITDA		**14,509**		12,471
Adjusted cash flow from operations		**10,504**		8,764
Diluted per share amounts				
Net earnings (loss) attributable to shareholders	**$**	**2.43**	$	(0.23)
EBITDA		**0.53**		0.44
Adjusted cash flow from operations		**0.38**		0.31

As at *($ in millions, except per share amounts)*	2019 March 31	2018 December 31	March 31
Assets under management	$ 29,621	$ 26,962	$ 29,457
Assets under administration	18,745	17,385	17,601
Shareholders' equity	656	599	624
Securities	674	627	648
Diluted per share			
Shareholders' equity	$ 23.66	$ 21.57	$ 21.98
Securities	24.30	22.58	22.84

RESULTS OF OPERATIONS

For the quarter ended March 31, 2019, Guardian's Operating earnings were $11.2 million, a 6% increase from the $10.5 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 $5.3 million, compared to $5.4 million in the same quarter in the prior year. The slight decrease is attributed to lower Operating earnings in the domestic investment management business, largely as a result of lower management fees resulting from outflows of the Canadian equity assets over the past year. This decrease was largely offset by an increase in the Operating earnings from the UK-based business, which experienced a significant inflow of assets over the past year, including more than doubling of its AUM to $2.3 billion during the current quarter.

The Financial Advisory Segment's Operating earnings in the current quarter were $3.3 million, compared to $2.9 million in the same quarter in the prior year. The increase is attributable mainly to higher insurance commission revenue, benefiting from the significant advisor recruitments completed in the prior year. The increase in Net commission revenue was partially offset by increases in expenses, largely in the form of key human resources and other costs to support the current growth and to better leverage the new technology platform implemented in 2018, and the higher amortization expenses resulting from significant investments in advisor recruitments made in the prior year.

The Corporate Activities and Investments Segment's Operating earnings for the current quarter were $2.5 million, compared to $2.3 million during the same quarter in the prior year, due to higher Dividend and interest income 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 $65.9 million, driven by the significant rebound in the global financial markets since the end of 2018, compared to net losses of $15.9 million in the prior year, when markets declined.

The Net earnings available to shareholders were $67.2 million, compared to a Net loss attributable to shareholders of $6.2 million in the prior year. The increase was due to the large increases in Net gains and the improvement in Operating earnings, offset partially by a resulting increase in Income taxes.

EBITDA for the quarter was $14.5 million, compared to $12.5 million in the same period in 2018. The increase was due to the improved Operating earnings, as well as to the adoption of a new accounting standard in 2019. The adoption of IFRS 16 resulted in EBITDA being higher by $0.6 million in the current quarter than it would have been under the previous accounting standard. The Adjusted cash flow from operations for the quarter was $10.5 million, compared to $8.8 million in the same period in 2018. Similar to EBITDA, Adjusted cash flow from operations increased due to improved Operating earnings and the adoption of IFRS 16, which had the effect of increasing Adjusted cash flow from operations by $0.5 million.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

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

As at *($ in millions)*	2019 March 31	2018 December 31	March 31
Assets under management			
Institutional			
Canadian equities	$ 9,870	$ 9,122	$ 10,539
Global equities	9,728	8,089	8,001
Fixed income	6,957	6,900	7,960
	26,555	24,111	26,500
Private wealth and international private banking	3,066	2,851	2,957
Total assets under management	$ 29,621	$ 26,962	$ 29,457
Assets under administration	$ 18,745	$ 17,385	$ 17,601

The AUM as at March 31, 2019 was $29.6 billion, an increase of 10% from $26.9 billion at December 31, 2018, and a marginal increase from $29.5 billion at March 31, 2018. The increase in AUM in the current quarter was due largely to the significant rebound in the global financial markets from the lows at the end of 2018, and the significant inflow of new client assets into the Fundamental Global Equity strategy, partially offset by smaller net outflows in domestic strategy assets. The Fundamental Global Equity strategy more than doubled its AUM to $2.3 billion during the current quarter.

With the recent net flows into our non-domestic strategies, we continue to succeed in diversifying our revenue sources. As at March 31, 2019, the non-domestic equity AUM represents 37% of our total institutional AUM and just under 50% of total equity AUM, compared with 30% and 43%, respectively, in the same quarter in the prior year. The AUA at March 31, 2019 was $18.7 billion, a new historic high, up from $17.4 billion at the end of 2018 and $17.6 billion as at March 31, 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

Management Fee Income, Net

Management fee income earned by the Investment Management Segment is generated by providing continuing investment management services to client AUM. The following analysis of management fee income should be read in conjunction with note 12 (a) – Business Segments in Guardian's quarterly financial statements.

Management fee income generated within the Investment Management Segment, net of referral fees paid, for the quarter ended March 31, 2019 was $21.8 million, a slight decrease from the $22.1 million in the same quarter in the prior year. Institutional management fee income earned in the current quarter was $17.4 million, a decrease from the $17.9 million a year earlier. The decrease in institutional management fee income was largely driven by a decrease in the domestic operations, resulting from net redemptions in these strategies since the first quarter of 2018. Partially offsetting the lower revenue in the domestic business is the impact of an inflow of net assets into the higher fee-earning Fundamental Global Equities strategy. Management fee income from our non-domestic equity AUM is now greater than 50% of total institutional management fee income. Private wealth and international private banking management fees, net of referral fees paid, earned in the current quarter amounted to $4.4 million, compared to $4.2 million a year earlier.

Financial Advisory Commission Revenue

Net commission revenue earned by the Financial Advisory Segment is generated from the sale of life insurance products, mutual funds and other securities, as well as from continuing trailer and servicing commissions related to AUA and in-force life insurance policies, net of commissions paid to advisors. The following analysis of net commission revenue should be read in conjunction with note 12 (a) – Business Segments in Guardian's quarterly financial statements.

Net commission revenue generated within the Financial Advisory Segment for the current quarter was $12.9 million, an 18% increase from $10.9 million a year earlier. Net commissions from the MGA business in the current quarter were $9.3 million, compared to $7.0 million a year earlier, benefiting from continued organic growth and the successful advisor recruitments completed in 2018. Included in this growth is $1.3 million increase in annual service commission revenue, which were received on the renewal of life insurance policies sold in the prior year. The contractual premiums on life insurance policies sold were $31.0 million in the current quarter, compared to $16.6 million in the prior year. Net commissions from the Dealers business in the current quarter were $3.6 million, dampened by the lower average AUA resulting from the financial market downturn at the end of 2018, compared to $3.9 million a year earlier.

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 $4.0 million for the current quarter as compared to $3.4 million in the prior year.

Dividend and Interest Income

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

For the three months ended March 31 *($ in thousands)*		**2019**		2018
Dividends on Bank of Montreal shares	**$**	**3,650**	$	3,441
Other dividends		**878**		1,135
Dividend income		**4,528**		4,576
Interest income		**1,319**		843
	$	**5,847**	$	5,419

Dividend income remained largely flat when comparing the current quarter to the same quarter in the prior year. Dividends on the Bank of Montreal shares increased by 7.5% per share, while the dividends from other securities declined compared to last year, due to the temporary reallocation of investments away from dividend growth strategies in late 2018. The higher interest income earned in the current quarter compared to the same quarter in the prior year is due to higher interest-spread income being earned in the Dealers business.

Expenses

Guardian's expenses increased to $33.1 million in the current quarter, compared to $31.0 million in the same quarter, in the prior year. Expenses in the Investment Management Segment stayed relatively flat, increasing by $0.3 million over the prior year. Included in this Segment's prior year expenses are approximately $1.0 million in one-time expenses related to the integration of Alta. Excluding this one-time expenditure, expenses increased by approximately $1.3 million, much of which was used to support our growing non-domestic businesses.

Within the Financial Advisory Segment, expenses increased by $2.1 million, compared to the prior year. To support the growth in top-line revenues and to continue our business development plans in our successful MGA business, the staffing and other expenses were increased. Excluding the effects of the adoption of IFRS 16, as discussed under Result of Operations above, interest and amortization expenses also increased, due to from the significant investment in advisor recruitments made in the prior year. In the Dealers, we continued to make key expenditures in people and other costs to leverage our technology platform, which we implemented in 2018, to improve advisor experience and support the business' next phase of growth.

Expenses in the Corporate Activities and Investments Segment, after allocation to the other segments, remained relatively flat over the same quarter in the prior year.

NET GAINS (LOSSES)

For the three months ended March 31	2019	2018
Bank of Montreal common shares	$ 39,600	$ (12,321)
Other securities	24,854	(2,108)
Net gains (losses) on securities	64,454	(14,429)
Net gains (losses) on disposal of intangible assets	303	481
Net foreign exchange gains (losses)	1,126	(1,984)
	$ 65,883	$ (15,932)

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

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). As the global financial markets rebounded in the first quarter of 2019 from the lows at the end of 2018, the fair value of our Securities increased significantly, resulting in $65.9 million in Net gains in the current quarter, compared to $15.9 million in Net losses in the prior year when the financial markets retreated. In addition, the current quarter's Net gains include foreign exchange Net gains of $1.1 million, arising mainly from the effects of the strengthening Canadian dollar on the US dollar loan.

During the current quarter, Guardian reduced its exposure to the Bank of Montreal shares ("BMO") by disposing of 100,000 shares for total proceeds of $9.8 million. Subsequent to the quarter end, another 100,000 shares were disposed of for total proceeds of $10.4 million.

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)	March 31	December 31	March 31
Securities, carried at fair value			
Proprietary investment strategies			
Fixed-income securities	$ 18,119	$ 20,746	$ 19,456
Canadian equities	21,321	13,159	19,403
Global equities	194,004	182,954	212,076
Real estate	19,956	19,560	14,536
	253,400	236,419	265,471
Bank of Montreal common shares	359,460	329,670	359,825
Other securities	50,866	51,131	12,847
	663,726	617,220	638,143
Securities, carried at amortized cost	10,000	10,000	10,000
Securities	$ 673,726	$ 627,220	$ 648,143
Total securities per share, diluted	$ 24.30	$ 22.58	$ 22.84

Guardian's securities as at March 31, 2019 had a fair value of $674 million, or $24.30 per share, diluted, compared with $627 million, or $22.58 per share, diluted, at the end of 2018. Shareholders' equity as at March 31, 2019 amounted to $656 million, or $23.66 per share, diluted, compared to $599 million, or $21.57 per share, diluted, at the end of 2018.

In addition to the strong balance sheet, Guardian has, under various borrowing arrangements, total borrowing capacity of $155 million. As at March 31, 2019, the total bank borrowing amounted to $141.3 million, compared with $138.9 million at the end of 2018.Guardian's adjusted cash flow from operations for the current quarter was $10.5 million, compared to $8.8 million in the same quarter in 2018. Guardian uses its adjusted cash flow from operations primarily to fund its working capital, pay its quarterly dividends, repurchase shares under its Normal Course Issuer Bid, repay debt, where possible, and for capital expenditures. During the current quarter, Guardian used its cash flow from operations together with increased borrowings and the proceeds of disposal of 100,000 shares of the BMO, to fund working capital obligations, including the payment of 2018 variable compensation amounts, capital expenditures, the payment of Guardian's dividend and the acquisition of additional treasury shares consistent with prior year.

CONTRACTUAL OBLIGATIONS

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

As at March 31, 2019 *($ in thousands)*	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	$ 141,320	$ 141,320	$ --	$ --	$ --
Client deposits	48,320	48,320	--	--	--
Payable to clients	43,435	43,435	--	--	--
Accounts payable and accrued liabilities	35,795	35,795	--	--	--
Other liabilities	19,075	--	--	19,075	--
Investment commitments	27,760	27,760	--	--	--
Scheduled lease payments	15,968	2,669	5,160	4,269	3,870
Third party investor liabilities	2,360	2,360	--	--	--
Total contractual obligations	$ 334,033	$ 301,659	$ 5,160	$ 23,344	$ 3,870

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)*	**Mar 31, 2019**	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
Net revenue	**$ 44,291**	$ 44,300	$ 42,773	$ 42,924	$ 41,516	$ 39,097	$ 36,315	$ 37,208
Operating earnings	**11,176**	12,137	12,444	11,302	10,504	13,046	10,505	12,160
Net gains (losses)	**65,883**	(89,001)	28,481	20,800	(15,932)	38,186	4,068	(3,603)
Net earnings (loss)	**68,099**	(69,652)	35,079	26,245	(5,279)	44,466	12,555	7,493
Net earnings (loss) attributable to shareholders	**67,220**	(70,449)	34,320	25,385	(6,208)	43,982	12,310	7,242
Shareholders' equity	**656,167**	599,311	670,382	644,956	623,511	634,416	608,013	603,428
Per Class A and Common share (in $)								
Net earnings (loss) attributable to shareholders								
Basic	**$ 2.57**	$ (2.63)	$ 1.28	$ 0.95	$ (0.23)	$ 1.59	$ 0.44	$ 0.26
Diluted	**2.43**	(2.63)	1.21	0.90	(0.23)	1.51	0.42	0.25
Shareholders' equity								
Basic	**$ 25.14**	$ 22.85	$ 24.98	$ 24.06	$ 23.27	$ 23.20	$ 21.87	$ 21.75
Diluted	**23.66**	21.57	23.57	22.74	21.98	21.88	20.67	20.54
Dividends paid	**$ 0.125**	$ 0.125	$ 0.125	$ 0.125	$ 0.100	$ 0.100	$ 0.100	$ 0.100
As at period end								
Total Class A and Common shares outstanding (in thousands of shares)	**28,405**	28,405	29,012	29,012	29,012	29,523	30,023	30,023

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.

In 2018, the increases in net revenue included the contributions from Alta, which was acquired on January 1, 2018. With the adoption of IFRS 9, applied retrospectively, the Net gains (losses) reflect changes in fair values of the securities during each period. This volatility of Net gains (losses) reflects the volatility of the financial markets in which Guardian's securities trade. The volatility of gains (losses) also directly impacted Net earnings (losses) attributable to shareholders during those periods.

The quarterly fluctuations in shareholders' equity shown above are caused largely by 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 first 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 first 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 $394 million in Bank of Montreal shares, which represents 53% (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 1.3 million shares of the bank since the second quarter of 2013. Subsequent to the current quarter, another 100,000 shares were sold. 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 60% (December 31, 2018 - 59%) Canadian equities, consisting mainly of the Bank of Montreal shares, 31% (December 31, 2018 – 31%) non-Canadian equities and 9% (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 first quarter Consolidated Financial Statements for further discussion and sensitivity analysis.

Credit Risk

Guardian's credit risk is generally considered to be low. Because of the nature of Guardian's business, its receivables are mainly from large institutions, which are considered to pose a relatively low credit risk, or from individuals, which are secured by marketable securities. Guardian periodically reviews the financial strength of all of its counterparties, and if the circumstances warrant it Guardian takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in fixed-income mutual funds is managed by 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 three credit facilities, and leveraging the support of its significant security portfolio. The maturities of Guardian's contractual commitments are outlined under "Contractual Commitments" in this discussion and analysis. The combination of the cash flows from operations, the securities holdings and the borrowing facilities provide sufficient cash resources to manage its liquidity risk.

Regulatory and Legal Risk

Guardian and its subsidiaries operate in an environment subject to various laws and regulations. Given the nature of certain of Guardian's subsidiaries, they may, from time to time, be subject to claims or complaints from investment clients and sanctions from governing bodies. These risks

are mitigated by maintaining relevant in-house competence in laws and regulations, compliance and product review oversight, adequate insurance coverage and, where appropriate, utilizing assistance from external advisors.

Financial Advisory Risk

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

Information Technology and Cybersecurity Risk

Guardian uses information technology and the internet to streamline business operations and to improve client and advisor experience. However, 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. These reclassification of expenses and cash flows resulted in increased EBITDA and Adjusted cash flow from operations under the new standard by $0.6 million and $0.5 million, respectively, in the current quarter. The adoption of IFRS 16 is discussed in further detail in note 2 (b) of Guardian's first 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 three months ended March 31 *($ in thousands)*		**2019**		2018
Net earnings (loss), as reported	**$**	**68,099**	$	(5,279)
Add (deduct):				
Income tax expense		**8,960**		(149)
Net (gains) losses		**(65,883)**		15,932
Stock-based compensation		**523**		529
Interest expense		**1,126**		620
Amortization		**3,313**		2,266
Non-controlling interests		**(1,629)**		(1,448)
EBITDA	**$**	**14,509**	$	12,471

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 three months ended March 31 *($ in thousands)*		**2019**		2018
Net cash from (used in) operating activities, as reported	**$**	**(5,327)**	$	(5,381)
Add (deduct):				
Net change in non-cash working capital items		**17,264**		15,268
Non-controlling interests		**(1,433)**		(1,123)
Adjusted cash flow from operations	**$**	**10,504**	$	8,764

The adoption of IFRS 16 on January 1, 2019 resulted in an increase in Adjusted cash flow from operations by $0.5 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 have had a strong recovery from the lows of the fourth quarter of 2018. The question now is: where do we go from here? There are always many factors to consider when formulating a market outlook, including short interest rates, long interest rates, the shape of the yield curve (the spread between the 3-month and 10-year treasury yields), the direction of earnings (the economy) and valuations. However, currently there is another issue to consider, the trade dispute between the two largest economies in the world, China and the United States. We do not believe that economies just drift into recession. Typically, recessions are caused by Central Bank tightening, or an extraneous event. Given that the Fed has stopped tightening, and assuming that the trade war does not continue, the US economy should continue to improve. Without the trade war concerns, we believe the Fed would have kept raising rates in light of full employment combined with the stimulative effects of tax cuts. At the same time, the

Chinese economy should also improve, given their own recent stimulus measures. This should result in a better global backdrop and improved earnings. The opposite could occur if the trade war does not end or continues for too long.

Since the Fed indicated that tightening is on hold, long bond yields have rallied substantially. Normally, at the end of a cycle, earnings growth is in a race with rising long yields, meaning that earnings are rising, helping valuations, while long rates are also rising, putting pressure on valuations. At this stage, with long bond yields in the mid 2% range, there is no reason to expect rates to choke the economy, and long bonds are not a strong competitor with equities for the marginal investment dollar. A negative sloping yield curve has historically been a good forecaster of recessions. The 3-month to 10-year portion of the yield curve briefly inverted toward the end of March, but ended March in positive territory. While this is of concern, we note that lead times to a recession can be long, from 12 to 24 months, and stock markets often rally after a yield curve inversion, so we think we have time to assess the situation.

For Guardian, how equity and fixed income markets perform 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, and will strategically raise cash through partial sale of our BMO position and other investments on our balance sheet to pursue any opportunity that arises, whether it is seeding new products, making acquisitions, or opportunistic share buybacks.

GUARDIAN
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