Guardian

Guardian Capital Group Limited
Report to Shareholders

First Quarter
March 31, 2019

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the period ended March 31, 2019. All per share figures disclosed below are stated on a diluted basis.

For the three months ended March 31 *($ in thousands, except per share amounts)*	**2019**	2018
Net revenue	**$ 44,291**	$ 41,516
Operating earnings	**11,176**	10,504
Net gains (losses)	**65,883**	(15,932)
Net earnings (loss) attributable to shareholders	**67,220**	(6,208)
EBITDA [(1)]	**$ 14,509**	$ 12,471
Adjusted cash flow from operations [(1)]	**10,504**	8,764
Per share:		
Net earnings (loss) attributable to shareholders	**$ 2.43**	$ (0.23)
EBITDA [(1)]	**0.53**	0.44
Adjusted cash flow from operations [(1)]	**0.38**	0.31

As at	**2019**	**2018**	
($ in millions, except per share amounts)	**March 31**	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
Per share:			
Shareholders' equity [(1)]	**$ 23.66**	$ 21.57	$ 21.98
Securities [(1)]	**24.30**	22.58	22.84

Summary

The Company's Operating earnings for the quarter ended March 31, 2019 were $11.2 million, compared to $10.5 million during the same quarter in the prior year.

The Net revenue increased to $44.3 million in the current quarter, $2.8 million higher than $41.5 million in the same quarter in the prior year. The increase in Net revenue is primarily due to the growth in insurance commission revenue, benefiting from the successful advisor recruitments completed in 2018, together with increases in interest and administrative services income earned in both the Investment Management and the Financial Advisory Segments.

Partially offsetting the increase in Net revenue were increases in expenses which, in the current quarter, were $2.1 million higher than in the prior year. The increased expenses were largely incurred in the Financial Advisory Segment.

The volatility in the global financial markets continues to drive significant fluctuations in the quarterly Net gains (losses) associated with our Securities. In the current quarter, Net gains were $65.9 million, which resulted largely from the increase in fair value of Securities, compared to $15.9 million of Net losses in the prior year. During the current quarter, the Company disposed of 100,000 shares of the Bank of Montreal, and disposed of an additional 100,000 shares subsequent to March 31, 2019.

As a result of the Net gains and improved Operating earnings described above, the Company's Net earnings attributable to shareholders in the current quarter increased to $67.2 million, compared to a Net loss attributable to shareholders of $6.2 million in the first quarter of the prior year.

The Company's Assets Under Management ("AUM") was $29.6 billion as at March 31, 2019, compared to $27.0 billion at the end of 2018 and $29.5 billion as at March 31, 2018. The increase in AUM in the quarter is due to the combination of positive financial market performance and successes in attracting net new assets. The new client asset flow was most significant into the Fundamental Global Equity strategy managed by our UK operations, which more than doubled its AUM during the quarter to $2.3 billion. This net inflow was partially offset by outflows in the domestic business. The Company's assets under administration were $18.7 billion as at March 31, 2019, compared to $17.4 billion at the end of 2018 and $17.6 billion as at March 31, 2018.

EBITDA[(1)] for the current quarter was $14.5 million, or $0.53 per share, compared to $12.5 million, or $0.44 per share for 2018. Adjusted cash flow from operations[(1)] for the current quarter was $10.5 million, or $0.38 per share, compared to $8.8 million, or $0.31 per share for 2018. Both measures increased compared to last year due to improved Operating earnings and to a lesser degree the initial adoption of a new accounting standard, IFRS 16 - Leases. The Company elected to apply the new standard on a modified retrospective basis, which does not require restatement of prior periods. As a result, the 2018 figures have not been restated and are not entirely comparable with current period figures. The adoption of the new standard resulted in increases to EBITDA[(1)] and Adjusted cash flow from operations[(1)] of $0.6 million and $0.5 million, respectively, in the current quarter, compared to what they would have been under the previous standard.

The Company's Shareholders' equity as at March 31, 2019 was $656 million, or $23.66 per share[(1)], compared to $599 million, or $21.57 per share[(1)] as at December 31, 2018, and $624 million, or $21.98 per share[(1)], as at March 31, 2018. The fair value of the Company's Securities as at March 31, 2019 was $674 million, or $24.30 per share[(1)], compared to $627 million, or $22.58 per share[(1)], as at December 31, 2018, and $648 million or $22.84 per share[(1)], as at March 31, 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 first quarter, the returns experienced by investors were essentially a total reversal of the prior quarter's negative results. Traditional equity and bond assets had significant positive returns, with the S&P/TSX Composite generating a total return of 13.3%, the best quarterly performance since 2009 and the strongest start to a year in almost two decades. Similarly strong performance was experienced across the globe, with almost all of the developed and emerging markets posting positive returns, including an impressive total return of 13.7% for the S&P 500. Bonds also experienced strong absolute returns across the globe, as Central Banks began to signal less hawkish views.

The US trade war with China is the wild card. We believe a deal will ultimately be concluded. That said, the trade war has had an impact, as the global economy appears to be slowing because of it. In Q4 2018, concerns about the trade war occurring at the same time the Fed was tightening caused the market pull-back. In Q1 2019, optimism about a potential trade deal, along with better valuations and the Fed pausing, propelled the market upward, but we expect some volatility in the stock market environment until the deal is completed.

In our core Investment Management business, the significant positive returns across most asset classes provided strong growth momentum for this segment, as our total assets under management increased by 10% in the quarter, to $29.6 billion. Complementing the strong market returns were material additions of new client money for our UK-based Fundamental Global Equity team, where assets under management ended the quarter with greater than $2 billion, more than doubling in size during the period. The positive new client money flow for our Fundamental Global Equity team has continued in Q2 and, given the relative strong performance of this investment strategy and growing investor interest, with increased requests for proposals and new third-party distribution platforms adopting the strategy, we are optimistic about the growth of AUM for this team. Beyond the satisfaction of gaining 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 for 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 these recent successes, and management is excited about the possible transformation it may bring to our Investment Management Segment.

Our Canadian equity and bond strategies continue to experience negative flows, which are offsetting some of the strong new client money in global assets. However, we are 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, as the negative sentiment for the asset class abates. To assist us in our goal, we continuously take advantage of our deeply talented portfolio management resources along with our balance sheet to seed, incubate and develop new strategies which, in the fullness of time, have a chance to become strong revenue contributors to the segment. An example of this is the extension of our commitment to build a continuum of high-conviction regional equity strategies, including our Canadian Focused offering, which has an investment philosophy similar to those of our Fundamental Global and US Equity teams. The patience of seeding and building a meaningful track record over the last number of years extends another option to our traditional core Canadian equity offerings and, as a result, we are starting to gain interest from existing and prospective new clients. We have also started to create a series of "managed outcome" solutions with an emphasis on income, downside protection and what we believe will be a paradigm shift toward de-accumulation strategies. These strategies are relatively recent incubations over the past year but, as a result of the strength and reputation of the investment team, we have been pleasantly surprised with the early warm reception from many potential partners and clients who are showing keen interest in these solutions. We believe our continued commitment to incubate new investment solutions will lead to future growth for the firm, much like we are beginning to witness with our UK Fundamental Global team.

As at the end of the first quarter, one-third of our total AUM is now in non-Canadian assets, and half of our equities are non-Canadian. The recent growth in non-Canadian assets has come from a combination of the success our Fundamental Global Equities team in London and our acquisition of 70% of Alta Capital Management in Salt Lake City, but we would like to note that our Global Systematics team, our first 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 Capital Management, has met or exceeded our expectations; we are very happy with the quality of our people in Salt Lake City, and the results they have provided since their acquisition at the beginning of 2018. In the past quarter, we introduced a "40-Act" mutual fund in the United States, setting up an opportunity for smaller subscriptions 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 has been limited during the first quarter, as our primary focus has been to get the new fund approved on a targeted list of US retail intermediary platforms. All indications are that we have promising expressions of interest from a number of advisors already working with us with separately-managed mandates, and we look forward to a more active marketing campaign over the course of the year, which will hopefully translate into positive flows for the new fund. Leveraging our organizational commitment to launching this fund for Alta, we are currently in the process of launching a second "40-Act" fund, to be managed by our Global Systematics team, representing their flagship Global Dividend Equity strategy. The decision to launch these two funds is based on the premise that the same advisors who are using our strategies for their wrap fee-based clients will embrace having a pooled vehicle for their smaller clients to access the strategies which they have used for their larger clients through wraps. We will prudently expand launching additional such US funds for select products managed by various Guardian portfolio management teams in the near future. In order to support our quest for growth, Guardian is continuing to add high-quality individuals, who are assisting in our plan to increase our sales and client relationship footprint in the areas in which we have operations, with the expectation that we will be able to grow our AUM, and service our growing list of clients in the best possible manner.

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 quarter, we spent a great deal of our time attracting the human capital necessary to improve on the depth and quality of the team so as to better position this business segment for much greater success going forward. We added to our head office corporate executive leadership by creating a new segment role as Head of Wealth Management and appointed Doce Tomic, an experienced leader, to oversee our firm's strategy and commitment to wealth management, which includes oversight and implementation of the businesses in the Financial Advisory Segment and our private client division. We believe that over time Guardian has nurtured and assembled a collection of wealth management businesses that have standalone scale and respect of many in our industry. The opportunity to leverage our presence and synergies across the existing wealth management businesses and conduct strategic coordination between these businesses offers very exciting growth prospects. We are excited that Doce has joined us and, given his proven experience and leadership in wealth management, we look forward to improving our current business practices and executing a growth strategy which further strengthens the financial and strategic objectives of this segment. The greatest value for all stakeholders, including shareholders of Guardian, across our wealth management platforms is to always prioritize our commitment to both the clients and advisors who have chosen to partner with our wealth platforms. This commitment from time to time requires us to sacrifice short-term profits for long term value creation, as we prioritize the quality of service we provide to those who have chosen to partner with Worldsource. Our investment to update the technology platforms has been a large undertaking over the past year, and it has stressed our staff, advisors and business results. The investment to hire additional expertise and leadership provides further evidence of our commitment to support our partners and ultimately deliver tangible improvements to their operating environment and best practices.

In the first quarter, Worldsource grew assets under administration to $18.7 billion from $17.4 billion at year end and $17.6 billion as at March 31, 2018, primarily due to market performance, but advisor recruitment and net sales were also additive in the quarter. The Dealers' business was able to grow revenues and positively contribute to earnings, but expenses have also increased versus last year, due to the implementation of the new back office system and the additional headcount to better size our capacity to assist future growth. It is expected that positive contributions from the Dealers will be measured in the near term, as we front-load more expenses so as to position us for greater growth into the future. Our MGA business unit had another strong quarter, with premiums on life insurance policies sold (a good indicator of future ongoing revenues), net commission revenues, and operating profit growing significantly year over year The growth in these metrics is owed to successful recruiting over the past 12 months, as well as organic growth from existing advisors. Overall, the Financial Advisory segment contributed $3.3 million in operating earnings in Q1, compared to $2.9 million in the same quarter in the prior year, representing roughly 30% of the Company's total operating earnings.

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 essentially fund the buyback of a block of shares acquired and cancelled late in Q4 2018. As at the end of Q1, we hold 3,600,000 shares of BMO, representing approximately 53% of our total investment portfolio of $674 million, increasing from $627 million as at December 31, 2018 and $648 million as at March 31, 2018. BMO shares as a percentage of our total investment portfolio is up marginally from December 31, 2018 but down from 56% as at March 31, 2018, with the balance of the portfolio largely allocated to global developed and developing equities. We remain active in re-allocating the investment portfolio across various current and newly-incubated strategies as a means of diversifying the portfolio. However, 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. Hence, indirectly the portfolio is much more exposed to the US dollar, which we have chosen for the current time to leave unhedged versus the Canadian dollar. In Q1 2019, dividend and interest income earned was $5.8 Million, of which BMO dividends were $3.7 million.

Quality companies generate strong cash flows and, as we grow these financial metrics, Guardian is committed to balancing the distribution of these cash flows between investing sufficient funds into the business for future growth and returning an ever-increasing amount of cash to its shareholders. So far this year, Guardian has returned roughly $3.4 million to shareholders through dividends in Q1, while no share buybacks were completed in the quarter, but we will consider more buybacks if the opportunity arises. 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 again declared the next quarterly dividend of $0.15 per share, payable on July 18, 2019 to the shareholders of record on July 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, May 9, 2019

(signed) "James Anas" (signed) "George Mavroudis"

Chairman of the Board President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	**March 31 2019**	December 31 2018
ASSETS		
Current assets		
Cash	**$ 33,522**	$ 32,362
Interest-bearing deposits with banks	**48,371**	61,730
Accounts receivable and other	**48,158**	43,854
Receivables from clients and broker	**41,039**	57,712
Income taxes receivable	**1,573**	3,259
Securities backing third party investor liabilities (note 3)	**2,360**	852
	175,023	199,769
Securities (note 4)	**673,726**	627,220
Other assets		
Deferred tax assets	**1,475**	1,469
Intangible assets	**120,214**	120,480
Equipment (note 2b)	**17,503**	5,170
Goodwill	**34,336**	34,760
	173,528	161,879
Total assets	**$ 1,022,277**	$ 988,868
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	**$ 141,320**	$ 138,902
Third party investor liabilities (note 3)	**2,360**	852
Client deposits	**48,320**	61,747
Accounts payable and accrued liabilities (note 6)	**35,146**	47,449
Lease obligations (note 2b)	**2,147**	--
Income taxes payable	**649**	605
Payable to clients	**43,435**	56,147
	273,377	305,702
Lease obligations (note 2b)	**11,918**	--
Other liabilities (note 6)	**19,075**	25,650
Deferred tax liabilities	**49,401**	45,537
Total liabilities	**353,771**	376,889
EQUITY		
Shareholders' equity		
Capital stock (note 7a and 7b)	**19,060**	19,060
Treasury stock (note 8a)	**(28,230)**	(25,235)
Contributed surplus	**18,123**	17,600
Retained earnings	**625,056**	560,479
Accumulated other comprehensive income	**22,158**	27,407
	656,167	599,311
Other equity interests	**12,339**	12,668
Total equity	**668,506**	611,979
Total liabilities and equity	**$ 1,022,277**	$ 988,868

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)

For the three months ended March 31 *($ in thousands, except per share amounts)*		**2019**		2018
Revenue				
Commissions revenue, gross	$	36,157	$	34,720
Commissions paid to advisors		(23,862)		(24,313)
		12,295		10,407
Management fees, gross		23,798		23,726
Fees paid to referring agents		(1,637)		(1,470)
		22,161		22,256
Administrative services income		3,988		3,434
Dividend and interest income (note 9)		5,847		5,419
Net revenue		44,291		41,516
Expenses				
Employee compensation and benefits		19,163		19,101
Amortization		3,313		2,266
Interest		1,126		620
Other expenses		9,513		9,025
		33,115		31,012
Operating earnings		11,176		10,504
Net gains (losses) (note 10)		65,883		(15,932)
Earnings (loss) before income taxes		77,059		(5,428)
Income tax expense (recovery)		8,960		(149)
Net earnings (loss)		68,099		(5,279)
Other comprehensive income				
Net change in foreign currency translation on foreign subsidiaries		(5,775)		13,708
Comprehensive income	$	62,324	$	8,429
Net earnings (loss) attributable to:				
Shareholders	$	67,220	$	(6,208)
Non-controlling interests		879		929
	$	68,099	$	(5,279)
Net earnings (loss) attributable to shareholders per Class A and Common share (note 11)				
Basic	$	2.57	$	(0.23)
Diluted		2.43		(0.23)
Comprehensive income attributable to:				
Shareholders	$	61,971	$	6,834
Non-controlling interests		353		1,595
Comprehensive income	$	62,324	$	8,429

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the three months ended March 31 *($ in thousands)*	2019	2018
Total equity, beginning of period	$ 611,979	$ 641,204
Shareholders' equity, beginning of period	599,311	634,416
Capital stock, beginning of period	19,060	19,871
Acquired and cancelled (note 7c)	--	(371)
Capital stock, end of period	19,060	19,500
Treasury stock, beginning of period	(25,235)	(23,764)
Acquired (note 8a)	(2,995)	(2,255)
Disposed of (note 8a)	--	374
Treasury stock, end of period	(28,230)	(25,645)
Contributed surplus, beginning of period	17,600	15,882
Stock-based compensation expense	523	529
Redemption of equity-based entitlements	--	(350)
Contributed surplus, end of period	18,123	16,061
Retained earnings, beginning of period	560,479	617,179
Initial application of new accounting standard (note 2b)	767	--
Adjusted balance, beginning of period	561,246	617,179
Net earnings (loss)	67,220	(6,208)
Dividends declared and paid (note 9)	(3,410)	(2,836)
Capital stock acquired and cancelled (note 7c)	--	(12,830)
Retained earnings, end of period	625,056	595,305
Accumulated other comprehensive income, beginning of period	27,407	5,248
Other comprehensive income (loss)	(5,249)	13,042
Accumulated other comprehensive income, end of period	22,158	18,290
Shareholders' equity, end of period	656,167	623,511
Other equity interests, beginning of period	12,668	6,788
Non-controlling interests, beginning of period	31,674	6,788
Initial application of new accounting standard (note 2b)	96	--
Adjusted balance, beginning of period	31,770	6,788
Net earnings	879	929
Other comprehensive income	(526)	666
Dividends declared and paid	(709)	--
Acquisition of subsidiary	--	22,656
Non-controlling interests, end of period	31,414	31,039
Obligations to non-controlling interests, beginning of period	(19,006)	--
On acquistion of subsidiary	--	(14,404)
Change during period	(69)	(852)
Obligations to non-controlling interests, end of period	(19,075)	(15,256)
Other equity interests, end of period	12,339	15,783
Total equity, end of period	$ 668,506	$ 639,294

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the three months ended March 31 *($ in thousands)*	2019	2018
Operating activities		
Net earnings (losses)	$ 68,099	$ (5,279)
Adjustments for:		
Income taxes (paid)	(3,113)	(3,529)
Income tax expense	8,960	(149)
Net (gains) losses	(65,883)	15,932
Amortization of intangible assets	2,493	2,041
Amortization of equipment	820	225
Stock-based compensation	523	529
Other non-cash expenses	38	117
	11,937	9,887
Net change in non-cash working capital items (note 13)	(17,264)	(15,268)
Net cash used in operating activities	(5,327)	(5,381)
Investing activities		
Net (acquisition) disposition of securities	13,188	(1,135)
Income taxes (paid)	--	(1,426)
Net (acquisition) deposition of securities backing third party investor liabilities	(1,341)	70
Acquisition of intangible assets	(4,136)	(2,338)
Acquisition of equipment	(180)	(152)
Disposition of intangible assets	1,306	1,019
Acquisition of subsidiary	--	(56,327)
Net cash from (used in) investing activities	8,837	(60,290)
Financing activities		
Dividends paid to shareholders	(3,410)	(2,836)
Dividends paid to non-controlling interests	(709)	--
Acquisition and cancellation of capital stock	--	(13,201)
Acquisition of treasury stock	(2,995)	(2,255)
Disposition of treasury stock	--	374
Net proceeds (repayments) of bank loan and bankers' acceptances	4,638	85,521
Net funds from third party investors in consolidated mutual funds	1,341	(70)
Principal payments on lease obligations	(498)	--
Net cash from (used in) financing activities	(1,633)	67,533
Foreign exchange		
Net effect of foreign exchange rate changes on cash balances	287	191
Net change in net cash	2,164	2,052
Net cash, beginning of period	25,177	31,128
Net cash, end of period	$ 27,341	$ 33,180
Net cash represented by:		
Cash	$ 33,522	$ 38,016
Bank indebtedness	(6,181)	(4,836)
	$ 27,341	$ 33,180

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 May 9, 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 the IFRS 16 on the Company's consolidated financial statements compared to IAS 17 are summarized in the following tables:

	As at March 31, 2019	Activity for the three months	As at January 1, 2019
Increase (decrease) in reported amounts due to IFRS 16			
Balance sheet			
Assets:			
Equipment - Right of use assets	**$ 12,444**	$ (516)	$ 12,960
Income taxes receivable	**11**	11	-
Liabilities:			
Accounts payable and accrued liabilities	**(2,439)**	47	(2,486)
Lease obligations: Current	**2,147**	--	2,147
Non-current	**11,918**	(518)	12,436
Equity:			
Retained earnings	**735**	(32)	767
Other equity interests	**94**	(2)	96
Statement of operations			
Expenses:			
Amortization		$ 543	
Interest		142	
Other expenses		(640)	
		45	
Operating earnings		(45)	
Income tax expense (recovery)		(11)	
Net earnings (loss)		$ (34)	
Net earnings (loss) attributable to:			
Shareholders		$ (32)	
Non-controlling interests		(2)	

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 the consolidated investment funds. These securities are classified as fair value through the profit or loss and are categorized as Level 1, based upon the fair value hierarchy.

Third party investor liabilities represent third party investors' proportionate ownership 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	March 31 2019	December 31 2018
Fair value through profit or loss:		
Short-term securities (i)	**$ 34,860**	$ 36,257
Fixed-income securities (i)	**18,119**	20,746
Bank of Montreal common shares (ii)	**359,460**	329,670
Other equity securities (i)	**231,331**	210,987
Real estate fund (iii)	**19,956**	19,560
	663,726	617,220
Amortized cost securities (iv)	**10,000**	10,000
	$ 673,726	$ 627,220

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

(ii) During the three months ended March 31, 2019, the Company disposed of 100 (2018 – nil) Bank of Montreal common shares ("BMO") for proceeds of $9,810 (2018 – $ nil). Subsequent to March 31, 2019, the Company disposed a further 100 BMO for proceeds of $10,361.

(iii) During the current quarter, the Company increased its investment in the fund by $396.

(iv) Amortized cost securities, 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.

(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		March 31 2019		December 31 2018
Level 1	$	585,656	$	539,823
Level 2		62,216		62,671
Level 3		15,854		14,726
	$	663,726	$	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 three months ended March 31		2019		2018
Securities categorized as Level 3, beginning of period	$	14,726	$	11,905
Change in fair value		1,338		424
Foreign exchange translation adjustments		(209)		362
Securities categorized as Level 3, end of period	$	15,854	$	12,691

5. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at			March 31 2019		December 31 2018
Bank indebtedness		$	6,181	$	7,185
Bankers' acceptances payable:	Canadian dollar		80,499		74,668
	US dollar		54,640		57,049
		$	141,320	$	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. All maturing borrowings were renewed subsequent to period end on similar terms with a net reduction in borrowings of approximately $11,000.

6. OTHER LIABILITIES

Other liabilities are comprised of the following:

As at		March 31 2019		December 31 2018
Current:				
Deferred payment (i)	$	6,546	$	--
Non-current:				
Deferred payment (i)		--		6,644
Obligations to non-controlling interests (ii)		19,075		19,006
	$	25,621	$	25,650

i) The deferred payment is the expected payments of $5,000 USD arising from the 2018 acquisition 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) Arising from the acquisition of 70% 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 March 31	2019		2018	
	Shares	Amount	Shares	Amount
Class A shares				
Outstanding, beginning of period	25,186	$ 18,282	26,334	$ 19,100
Acquired and cancelled	--	--	(511)	(371)
Converted from common	91	22	--	--
Outstanding, end of period	25,277	18,304	25,823	18,729
Common shares				
Outstanding, beginning of period	3,219	778	3,189	771
Acquired and cancelled	--	--	--	--
Converted into class A	(91)	(22)	--	--
Outstanding, end of period	3,128	756	3,189	771
Total outstanding, end of period	28,405	$ 19,060	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 three months ended March 31	2019	2018
Shares purchased and cancelled		
Class A	--	511
Common	--	--
Consideration paid	$ --	$ 13,201
Less average issue price, charged to share capital	--	371
Excess consideration charged to retained earnings	$ --	$ 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 March 31, 2019, the Company had purchased and cancelled nil common shares and 532 class A shares under the current NCIB. These shares were purchased and cancelled in 2018.

Subsequent to March 31, 2019, the Company purchased 449 Class A shares under the NCIB for consideration of $10,361.

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

For the three months ended March 31	2019	2018
Dividends declared and paid, per share	$ 0.125	$ 0.100

The Company has also declared dividends of $0.15 per share payable on April 18, 2019 and July 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 March 31	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	--	--	(49)	(374)
Balance, end of period	2,303	$ 28,230	2,220	$ 25,645

During the three months ended March 31, 2019, the Company disposed of nil (2018 – 49) shares of the treasury stock respectively for proceeds equal to their cost.

As at March 31, 2019, the treasury stock was composed of 30 common shares (2018 – 30) and 2,273 class A shares (2018 – 2,190).

(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 three months ended March 31	2019	2018
Equity-based entitlements, beginning of period	1,045	1,011
Provided	130	91
Exercised	--	(47)
Equity-based entitlements, end of period	1,175	1,055

During the three months ended March 31, 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 March 31	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	--	--	(2)	9.70
Option-like entitlements, end of period	1,128	$ 9.64	1,165	$ 9.62

During the three months ended March 31, 2019, no option-like entitlements were provided (2018 – nil).

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 three months ended March 31	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

10. NET GAINS

Net gains are composed of the following:

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 (i)	64,454	(14,429)
Net gains (losses) on disposal of intangible assets	303	481
Net foreign exchange gains (losses) (ii)	1,126	(1,984)
	$ 65,883	$ (15,932)

(i) Net gains (losses) on securities are a result of 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 three months ended March 31	2019	2018
Weighted average number of Class A and common shares outstanding:		
Basic	26,152	26,975
Effects of outstanding entitlements from stock-based compensation plans	1,605	--
Diluted	27,757	26,975
Net earnings available to shareholders:		
Basic	$ 67,220	$ (6,208)
Effects of outstanding entitlements from stock-based compensation plans	128	--
Diluted	$ 67,348	$ (6,208)

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 March 31	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue										
Gross commission revenue	$ --	$ --	$ 36,773	$ 35,206	$ --	$ --	$ (616)	$ (486)	$ 36,157	$ 34,720
Commissions paid to advisors	--	--	(23,862)	(24,313)	--	--	--	--	(23,862)	(24,313)
	--	--	12,911	10,893	--	--	(616)	(486)	12,295	10,407
Management fee, gross	24,063	24,077	--	--	--	--	(265)	(351)	23,798	23,726
Fees paid to referring agents	(2,253)	(1,956)	--	--	--	--	616	486	(1,637)	(1,470)
	21,810	22,121	--	--	--	--	351	135	22,161	22,256
Administrative services income	1,818	1,497	2,157	1,925	13	12	--	--	3,988	3,434
Dividend and interest income	237	64	618	345	4,930	4,764	62	246	5,847	5,419
Net revenue	23,865	23,682	15,686	13,163	4,943	4,776	(203)	(105)	44,291	41,516
Expenses										
Employee compensation and benefits	10,490	11,563	5,838	4,820	2,835	2,718	--	--	19,163	19,101
Amortization	1,560	1,243	1,481	907	272	116	--	--	3,313	2,266
Interest	73	53	315	23	896	544	(158)	--	1,126	620
Other expenses	6,420	5,432	4,736	4,555	(1,598)	(857)	(45)	(105)	9,513	9,025
	18,543	18,291	12,370	10,305	2,405	2,521	(203)	(105)	33,115	31,012
Operating earnings	5,322	5,391	3,316	2,858	2,538	2,255	--	--	11,176	10,504
Net gains	79	(174)	288	482	65,516	(16,240)	--	--	65,883	(15,932)
Net earnings before income taxes	5,401	5,217	3,604	3,340	68,054	(13,985)	--	--	77,059	(5,428)
Income tax expense	1,122	1,301	1,037	925	6,801	(2,375)	--	--	8,960	(149)
Net earnings	$ 4,279	$ 3,916	$ 2,567	$ 2,415	$ 61,253	$ (11,610)	$ --	$ --	$ 68,099	$ (5,279)
Net earnings attributable to:										
Shareholders	$ 3,876	$ 3,345	$ 2,091	$ 2,057	$ 61,253	$ (11,610)	$ --	$ --	$ 67,220	$ (6,208)
Non-controlling interests	403	571	476	358	--	--	--	--	879	929
	$ 4,279	$ 3,916	$ 2,567	$ 2,415	$ 61,253	$ (11,610)	$ --	$ --	$ 68,099	$ (5,279)
Additions to segment assets:										
Intangible assets	$ 538	$ 66,529	$ 3,543	$ 2,328	$ 55	$ 10	$ --	$ --	$ 4,136	$ 68,867
Equipment	--	47	34	26	147	80	--	--	180	152

As at March 31, 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	$ 192,868	$ 213,673	$ 155,508	$ 160,984	$ 734,995	$ 671,774	$ (61,094)	$ (57,563)	$ 1,022,277	$ 988,868
Liabilities	93,470	113,757	128,586	137,439	192,809	183,256	(61,094)	(57,563)	353,771	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
For the three months ended March 31								
Net revenue	**$ 36,119**	$ 34,623	**$ 8,290**	$ 7,017	**$ (118)**	$ (124)	**$ 44,291**	$ 41,516
As at March 31, 2019 and December 31, 2018								
Non-current assets:								
Intangible assets	**$ 54,082**	$ 52,011	**$ 66,132**	$ 68,469	**$ --**	$ --	**$ 120,214**	$ 120,480
Equipment	**14,157**	4,472	**3,346**	698	**--**	--	**17,503**	5,170
Goodwill	**13,826**	13,826	**20,510**	20,934	**--**	--	**34,336**	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 three months ended March 31	**2019**	2018
Decrease (increase) in non-cash working capital assets:		
Interest-bearing deposits with banks	**$ 12,265**	$ (278)
Accounts receivable and other	**(4,442)**	(1,841)
Receivables from clients and broker	**16,673**	14,184
Increase (decrease) in non-cash working capital liabilities:		
Client deposits	**(12,175)**	(1,101)
Accounts payable and other	**(16,873)**	(12,048)
Payable to clients	**(12,712)**	(14,184)
	$ (17,264)	$ (15,268)

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 $359,460 (December 31, 2018 – $329,670) investment in the Bank of Montreal shares, which represents 53% (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 $35,946 (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 March 31, 2019		
Canada	**$ 46,463**	**±$ 4,646**
Rest of World	**204,824**	**20,482**
	$ 251,287	**±$ 25,129**
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	March 31 2019	December 31 2018
Bank loans and borrowings	$ 54,640	$ 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 $5,464 (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	March 31 2019	December 31 2018
Interest rate sensitive assets:		
Interest-bearing deposits with banks	$ 48,371	$ 61,730
Short term securities	34,860	36,257
Fixed-income securities	18,119	20,746
Amortized cost securities	10,000	10,000
	$ 111,350	$ 128,733
Interest rate sensitive liabilities:		
Bank loans and borrowings	$ 141,320	$ 138,902
Client deposits	48,320	61,747
	$ 189,640	$ 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 $18,119 (2018 – $20,744) 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 are managed first by the Company that selects appropriate fixed income funds for various interest rate environments and then by the subsidiary who then manages the funds selected in accordance 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 for the other party by failing to discharge an obligation. The Company's total credit risk exposure, without consideration of any collateral or other credit enhancements, is as outlined below:

As at	March 31 2019	December 31 2018
Cash	$ 33,522	$ 32,362
Interest-bearing deposits with banks	48,371	61,730
Accounts receivable and other	48,158	47,113
Receivables from clients and broker	41,039	57,712
Short-term securities	34,860	36,257
Fixed-income securities	18,119	20,746
Amortized cost securities	10,000	10,000
	$ 234,069	$ 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 to from customers and the credit risk is low due to the nature of the Company customers. The accounts receivable may also include amounts that the Company is owed monies 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 or investment in money 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 or less. 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. ACQUISITION OF NON-CONTROLLING INTERESTS

Subsequent to March 31, 2019, the Company purchased for cash consideration of $4,462 a portion of the non-controlling interest in its subsidiary, IDC Worldsource Insurance Networks Inc., thereby increasing the Company's ownership interest to 85.3% from 81.6%.

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 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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Our history. Your future.

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