

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the three month period ended June 30, 2021 and the comparative period in the year 2020, as well as to certain other prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2020 Annual Report. This discussion and analysis has been prepared as of August 12, 2021.

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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

By their nature, forward-looking statements involve risks and uncertainties. There is a risk that the expectations reflected in such forward-looking statements will not be achieved. Undue reliance should not be placed on these statements, as a number of factors could cause actual results to differ materially from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, the economic and global financial impact of COVID-19 pandemic, 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: Investment Management, Wealth Management (formerly Financial Advisory), and Corporate Activities and Investments. Guardian is headquartered in Canada and operates in Canada, the United Kingdom, the United States and the Caribbean. The Investment Management business is operated through the Toronto, Ontario-based Guardian Capital LP ("GCLP"), London, UK-based GuardCap Asset Management Limited ("GuardCap"), Salt Lake City, Utah-based Alta Capital Management, LLC ("Alta") and Richmond, Virginia-based Agincourt Capital Management LLC ("Agincourt"). The Wealth Management business is operated through the following businesses: Guardian Capital Advisors LP ("GCA") and Guardian Partners Inc. ("GPI"), which serve the wealth management and advisory needs of high and ultra-high net worth clients; Worldsource Financial Management Inc. ("WFM"), a mutual fund dealer and Worldsource Securities Inc. ("WSI"), a securities dealer (together, the "Dealers"), which provide an independent platform for financial advisors to service their clients; IDC Worldsource Insurance Network Inc. ("IDC WIN"), a life insurance managing general agency ("MGA"), which provides insurance advisory services; Modern Advisor Canada Inc. ("Modern Advisor") which is a digital-advisory operation which also serves as the technology platform for Guardian's digital strategy; and Alexandria Bancorp Limited ("ABL"), a Caribbean-based international private bank serving the wealth management needs of international clients. At the end of the current quarter, Guardian had \$51.6 billion of assets under management ("AUM") and \$29.9 billion of assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities, which had a fair value of \$698 million at the end of the current quarter.

USE OF NON-IFRS MEASURES

Guardian uses certain measures to evaluate and assess the performance of its business, some of which are not defined within International Financial Reporting Standards ("IFRS"). These measures are EBITDA attributable to shareholders, EBITDA attributable to shareholders per share, adjusted cash flow from operations attributable to shareholders, adjusted cash flow from operations attributable to shareholder per share, all of which have changed its names to add the words "attributable to shareholders" to better describe the measure. Other Non-IFRS measures are 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. In the Non-IFRS Measures section of this Management Discussion and Analysis a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

COVID-19 UPDATE

Guardian continues to monitor the constantly evolving COVID-19 pandemic, including signs of resurgence of infection cases in certain pockets of the world and the improving vaccination rates and gradual easing of restrictions in other parts of the world. The majority of Guardian's employees continue to work from home, but a small portion have started to return to the office under reduced capacity limits and other public health guidelines. Improving vaccination rates and the easing of restrictions are good signs that some form of normalcy may be near. However, another wave of increased infection rates could negatively impact the global economic recovery and increase volatility in the global financial markets. Guardian is prepared to respond to various scenarios which may unfold, but these future developments and their impact on Guardian's financial performance are highly uncertain and difficult to predict.

CHANGES TO SEGMENTED REPORTING

During the current year, Guardian realigned its segmented reporting structure to better align with its operating structure. The financial advisory segment has been renamed Wealth Management. This segment retains the two businesses previously included in the financial advisory segment, IDC WIN and the Dealers. It now also includes GPI, the newly acquired business referred to above, plus certain businesses previously included in the Investment Management Segment: GCA, the private wealth business; Modern Advisor, the digital-advisory business; and ABL, the international private bank. The above section, *Overview of Guardian's Business*, provides the list of businesses now included in the Investment Management Segment. The following discussions include restatement of prior periods to reflect the new alignment.

CONSOLIDATED FINANCIAL RESULTS

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

For the periods ended June 30, (\$ in thousands, except per share amounts)	Three months		Six months	
	2021	2020	2021	2020
Net revenue	\$ 69,960	\$ 50,124	\$ 134,654	\$ 100,025
Expenses	48,761	36,697	95,951	75,785
Operating earnings	21,199	13,427	38,703	24,240
Net gains (losses)	56,467	43,254	98,438	(118,035)
Net earnings (loss) before income taxes	77,666	56,681	137,141	(93,795)
Income tax expense (recovery)	10,835	5,437	19,449	(10,128)
Net earnings (loss)	\$ 66,831	\$ 51,244	\$ 117,692	\$ (83,667)
Attributable to shareholders:				
Net earnings (loss)	\$ 65,138	\$ 50,486	\$ 114,763	\$ (85,882)
EBITDA	24,708	17,302	45,919	31,672
Adjusted cash flow from operations	19,201	15,403	37,693	28,723
Attributable to shareholders, diluted per share amounts:				
Net earnings (loss)	\$ 2.42	\$ 1.87	\$ 4.24	\$ (3.38)
EBITDA	0.92	0.64	1.70	1.18
Adjusted cash flow from operations	0.72	0.57	1.39	1.07
As at				
(\$ in millions, except per share amounts)	2021		2020	
	June 30	December 31	June 30	
Assets under management	\$ 51,641	\$ 45,984	\$ 31,196	
Assets under administration	29,902	22,289	20,010	
Shareholders' equity	780	700	596	
Securities	698	633	511	
Diluted per share				
Shareholders' equity	\$ 29.09	\$ 25.69	\$ 22.07	
Securities	26.03	23.23	18.92	

RESULTS OF OPERATIONS

For the quarter ended June 30, 2021, Guardian is reporting record high Operating earnings of \$21.2 million, a \$7.8 million or 58% increase from \$13.4 million reported in the second quarter of 2020. The growth reflects a combination of strong organic growth, led by GuardCap, the UK-based subsidiary, and IDCWIN, the MGA subsidiary, and, to a lesser extent, the net contributions from the businesses acquired over the recent three quarters.

With the continued positive performance in the global equity markets and the net inflows of client assets during the current quarter, Guardian's AUM reached a historic high of \$51.6 billion as at June 30, 2021. This is a 12% increase from \$46.0 billion as at December 31, 2020, and a 66% increase from \$31.2 billion as at June 30, 2020. GuardCap's success continued into the current quarter, growing its AUM to \$15.0 billion from \$10.7 billion at the end of 2020.

Guardian's AUA increased to \$29.9 billion, a 34% increase from \$22.3 billion as at December 31, 2020 and a 49% increase from \$20.0 billion as at June 30, 2020.

The Operating earnings by segment are described below.

The Investment Management Segment's Operating earnings in the current quarter were \$11.3 million, a \$5.5 million, or 95% increase from \$5.8 million in the same quarter in the prior year. The positive performance in the global equity markets and positive net inflows of client assets helped the Segment deliver this growth. Once again the growth was led by GuardCap, which continued to succeed in attracting new client assets into its Fundamental Global Equity strategy. The higher Operating earnings were partially offset by investments being made into the Canadian Retail Asset Management strategic initiative which incurred \$1.4 million in Operating losses this quarter. We expect the losses from this strategic initiative to continue in the near term as we buildout this multi-year strategy to strengthen our distribution capabilities to the retail market.

The Wealth Management Segment's Operating earnings in the current quarter were \$7.8 million, a \$2.4 million or 44% increase from the \$5.4 million reported in the same quarter in the prior year. The increase can be attributed mainly to the increase in Operating earnings from IDC WIN, our MGA business, and to lesser extents the growths in GCA and the Dealers. Partially offsetting the growth were \$1.1 million in Operating losses in Modern Advisor, ABL and the newly acquired GPI. As mentioned in prior periods, we expect the losses in Modern Advisor to continue while we build out our digital strategy in the Wealth Management Segment. We also expect to incur Operating losses in GPI in the near term while we invest to upgrade, rebuild and integrate this business into our overall Wealth Management offering.

The Corporate Activities and Investments Segment's Operating earnings for the current quarter were \$2.2 million, substantially unchanged from the same quarter in the prior year.

Net gains in the current quarter were \$56.5 million, compared to \$43.3 million in the same quarter in the prior year.

The Net earnings attributable to shareholders were \$65.1 million, compared to \$50.5 million in the prior year. The increase was due to the combination of the significant improvements in Operating earnings and stronger Net gains on securities as compared to the same quarter in the prior year.

EBITDA attributable to shareholders for the quarter was \$24.7 million, a 43% increase from \$17.3 million for the same period in 2020. Consistent with Operating earnings, GuardCap and IDCWIN are the two largest contributors, accounting for 62% of Guardian's EBITDA attributable to shareholders this quarter. IDC WIN's EBITDA attributable to shareholders for the current quarter was \$7.0 million, which excludes a portion attributable to non-controlling interest of \$1.5 million. Adjusted cash flow from operations attributable to shareholders for the quarter was \$19.2 million, a 25% increase from \$15.4

million in the same period in 2020. The increases in both metrics are reflective of the growth experienced in Guardian's operating businesses.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

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

As at (\$ in millions)	2021 June 30	2020 December 31	2020 June 30
Assets under management			
Institutional			
Canadian equities	\$ 7,647	\$ 7,356	7,048
Global equities	23,112	18,510	13,632
Fixed income	16,879	16,630	7,253
Institutional assets under management	47,638	42,496	27,933
Wealth management	4,003	3,488	3,263
Total assets under management	\$ 51,641	\$ 45,984	\$ 31,196
Assets under administration			
Dealers			
MGA segregated	16,528	15,107	13,927
Outsourced Chief Investment Officer and other	7,833	7,182	6,083
	5,541	--	--
Total assets under administration	\$ 29,902	\$ 22,289	\$ 20,010

Guardian is reporting total client assets for the quarter ended June 30, 2021 of \$81.5 billion, a 19% increase from \$68.3 billion as at December 31, 2020, and a 59% increase from \$51.2 billion as at June 30, 2020. AUM at the end of the current quarter reached another historic high of \$51.6 billion, a 12% increase from \$46.0 billion at December 31, 2020, and a 65% increase from the \$31.2 billion reported as at June 30, 2020. The strong growth in AUM was achieved through a combination of continued success in attracting new assets by GuardCap, the addition of \$9.0 billion from Agincourt, acquired during the fourth quarter of 2020, the addition of \$0.3 billion from GPI, acquired on March 1, 2021, and the continued positive global equity market returns. GuardCap's AUM at the end of the current quarter was \$15.0 billion, a 40% growth from \$10.7 billion at December 31, 2020.

The AUA at June 30, 2021 also grew to another historic high of \$29.9 billion, a 34% increase from \$22.3 billion at the end of 2020 and a 49% increase from \$20.0 billion as at June 30, 2020. Approximately \$5.1 billion of the increase in AUA since December 31, 2020 was due to the acquisition of GPI on March 1, 2021 and another \$0.4 billion increase since June 30, 2020 was due to the acquisition of Copoloff.

REVENUES AND EXPENSES

Net Management and Advisory Fees

Management and advisory fees, net of fees paid to referring agents ("Net management and advisory fees") earned by Guardian are generated by providing continuing management and advisory services to clients' investment assets (AUM and AUA). The following analysis of Net management and advisory fees should be read in conjunction with note 12 (a) – Business Segments in Guardian's Second Quarter Consolidated Financial Statements, as the totals for this segment quoted below are before inter-segment transactions.

Net management and advisory fees earned by the operating segments for the quarter ended June 30, 2021 were \$41.7 million before inter-segment transactions. In the same quarter in the prior year, the Net management and advisory fees were \$26.4 million before inter-segment transactions.

Net management and advisory fees earned in the Investment Management Segment in the current quarter were \$34.9 million, a 62% increase from \$21.8 million a year earlier. The increase was driven largely by the growth in GuardCap, which once again more than doubled its Net management fees, and the addition of Net management fees earned by Agincourt, which was acquired during Q4 2020.

Net management and advisory fees earned in the Wealth Management Segment amounted to \$6.8 million in the current quarter, up 47% from the \$4.6 million earned in the prior year. The increase was due largely to the combination of growth in GCA and the contribution of \$1.6 million from GPI, acquired on March 1, 2021.

Net Commission Revenue

Net commission revenue earned by Guardian results from the sale of life insurance products, mutual funds and other securities, as well as from continuing trailer and renewal commissions (previously referred to as 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 First Quarter Consolidated Financial Statements, as the totals for this Segment quoted below are before inter-segment transactions.

Net commission revenue earned in the current quarter was \$19.1 million before inter-segment transactions. In the same quarter in the prior year, the Net commission revenue was \$14.9 million before inter-segment transactions.

Net commissions from IDC WIN in the current quarter were \$15.1 million, a 34% increase compared to \$11.3 million in the same quarter a year earlier. The renewal commissions included above in the current quarter were \$6.7 million, up 18% from \$5.7 million in the same quarter in the prior year. Included in the current quarter are \$1.0 million of Net commissions from Copoloff, of which \$0.5 million were renewal commissions. The contractual premiums on life insurance policies sold ("Premiums Sold") were \$49 million in the current quarter, including \$3.8 million from Copoloff, compared to \$26 million in the same period in the prior year. The renewal of the policies associated with Premiums Sold generate renewal commissions in future periods when the policies are renewed. Net commissions from the Dealers business in the current quarter were \$4.0 million, up 11% from \$3.6 million in the same quarter of 2020.

Administrative Services Income

Administrative services income is comprised of registered plan administration, trust and corporate administration and other fees earned in the Wealth Management Segment, and fund administration fees earned from managed investment funds in the Investment Management Segment. This income amounted to \$4.5 million for the current quarter, as compared to \$4.2 million in the prior year.

Dividend and Interest Income

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

For the periods ended June 30, (\$ in thousands)	Three months		Six months	
	2021	2020	2021	2020
Dividends on Bank of Montreal shares	\$ 2,438	\$ 2,968	\$ 4,876	\$ 6,678
Other dividends	2,145	1,367	3,507	2,696
Dividend income	4,583	4,335	8,383	9,374
Operating activities	327	265	535	1,123
Investing activities	90	254	194	564
Interest income	417	519	729	1,687
	\$ 5,000	\$ 4,854	\$ 9,112	\$ 11,061

Dividend income increased in the current quarter by \$0.2 million, compared to the same period one year earlier, due largely to increased dividends earned from increased investments in proprietary investment strategies in the current quarter. The increase in dividends from these investments was partially offset by lower dividend income earned on BMO shares as a result of a portion of these shares being sold throughout 2020.

Interest income declined in the current quarter by \$0.1 million compared to the same period one year earlier. The Dealers and ABL saw modest increases in interest income, however this was offset by lower interest earned on interest-earning investments in the Corporate Activities and Investments Segment.

Expenses

Total expenses in the current quarter amounted to \$48.8 million, \$12.1 million higher than the \$36.7 million in the same quarter in 2020, reflecting the growth of the business and the investments in strategic initiatives. The increase resulting from the new businesses acquired since the second quarter of 2020, which includes GPI, Agincourt and Copoloff, amounted to \$5.3 million. The remaining increase in expenses can mainly be attributed to higher compensation expenses in GuardCap, in line with the growth of the business, and the increased strategic investments made in the Canadian Retail Asset Management initiatives and Modern Advisor.

NET GAINS (LOSSES)

The following table summarizes the main components of net gains (losses) during the current periods, with the prior periods as a comparison.

For the periods ended June 30, (\$ in thousands)	Three months		Six months	
	2021	2020	2021	2020
Bank of Montreal common shares	\$ 34,647	\$ 3,409	\$ 69,814	\$ (103,656)
Other securities	21,015	37,215	26,932	(11,414)
Net gains (losses) on securities	55,662	40,624	96,746	(115,070)
Net gains on disposal of intangible assets	510	541	1,157	879
Foreign exchange gains (losses)	295	2,089	535	(3,844)
	\$ 56,467	\$ 43,254	\$ 98,438	\$ (118,035)

Net gains in the quarter were \$56.5 million, compared to Net gains of \$43.3 million, a year earlier. The most significant factor influencing the levels of Net gains (losses) in the current quarter was the change in fair market value of BMO common shares. The BMO common share experienced greater increase in price during the current quarter, along with the Canadian equities market, whereas in the prior year the increase was more modest. The current quarter also benefited from the continued positive performance in the global equity markets, which recovered at a slower pace during the second quarter of 2020, when they did so at a faster pace than the Canadian equities market.

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 our substantial securities portfolio, as presented below:

As at (\$ in thousands, except per share amounts)	2021 June 30	December 31	2020 June 30
Securities, carried at fair value			
Proprietary investment strategies			
Short-term and fixed-income securities	\$ 18,916	\$ 36,244	\$ 24,776
Canadian equities	12,803	11,422	9,389
Global equities	310,608	300,204	224,041
Canadian real estate	24,904	24,847	23,065
	367,231	372,717	281,271
Bank of Montreal common shares	288,290	222,295	194,130
Short-term securities	15,179	20,857	22,159
Equities	27,444	16,702	13,591
Securities	\$ 698,144	\$ 632,571	\$ 511,151
Securities per share, diluted	\$ 26.03	\$ 23.23	\$ 18.92

Guardian's securities as at June 30, 2021 had a fair value of \$698.1 million, or \$26.03 per share, diluted, compared with \$632.6 million, or \$23.23 per share, diluted, at the end of 2020. Shareholders' equity as at June 30, 2021 amounted to \$780.3 million, or \$29.09 per share, diluted, compared to \$699.6 million, or \$25.69 per share, diluted, at the end of 2020.

In addition to its strong balance sheet, Guardian has, under various borrowing arrangements, total borrowing capacity of \$160.0 million. As at June 30, 2021, the total borrowings amounted to \$109.1 million, compared to \$95.7 million at the end of 2020. Guardian's Adjusted cash flow from operations for the current quarter was \$19.2 million, compared to \$15.4 million in the same quarter in 2020. The increase in the current quarter, compared to the same period one year earlier, was due to improved Operating earnings. 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, fund its capital expenditures, including acquisitions, and repay debt where possible. From time to time, Guardian may use a combination of debt and disposal of Securities to help finance temporary working capital requirements or capital expenditures.

CONTRACTUAL OBLIGATIONS

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

As at June 30, 2021 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 109,075	\$ 109,075	\$ --	\$ --	\$ --
Client deposits	43,353	43,353	--	--	--
Payable to clients	59,820	59,820	--	--	--
Accounts payable and accrued liabilities	65,836	65,836	--	--	--
Other liabilities	31,813	--	26,975	4,838	--
Investment commitments	29,907	29,907	--	--	--
Scheduled lease payments, undiscounted	14,807	3,259	5,792	3,848	1,908
Third party investor liabilities	102,586	102,586	--	--	--
Total contractual obligations	\$ 457,197	\$ 413,836	\$ 32,767	\$ 8,686	\$ 1,908

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. 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:

	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019
<i>As at (\$ in millions)</i>								
Assets under management	\$ 51,641	\$ 47,643	\$ 45,984	\$ 32,734	\$ 31,196	\$ 27,527	\$ 31,147	\$ 30,243
Assets under administration	29,902	28,680	22,289	20,755	20,010	18,152	20,248	19,040
<i>For the three months ended (\$ in thousands)</i>								
Net revenue	\$ 69,960	\$ 64,694	\$ 63,724	\$ 52,042	\$ 50,124	\$ 49,901	\$ 49,865	\$ 45,983
Operating earnings	21,199	17,504	18,493	12,108	13,427	10,813	13,030	12,105
Net gains (losses)	56,467	41,971	80,983	35,739	43,254	(161,289)	24,140	(1,274)
Net earnings (loss)	66,831	50,861	87,083	42,652	51,244	(134,911)	31,808	8,952
Net earnings (loss) attributable to shareholders	65,138	49,625	86,039	42,201	50,486	(136,368)	30,787	8,275
Net earnings (loss) attributable to shareholders:								
Per Class A and Common share (in \$)								
Basic	\$ 2.59	\$ 1.95	\$ 3.38	\$ 1.66	\$ 1.99	\$ (5.35)	\$ 1.20	\$ 0.32
Diluted	2.42	1.83	3.17	1.56	1.87	(5.35)	1.13	0.31
Dividends paid on Class A and Common shares (in \$)								
	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.15	\$ 0.15
<i>As at</i>								
Shareholders' equity (\$ in thousands)	\$ 780,323	\$ 737,363	\$ 699,610	\$ 631,863	\$ 596,265	\$ 562,821	\$ 682,777	\$ 653,983
Per Class A and Common share (in \$)								
Basic	\$ 31.15	\$ 29.02	\$ 27.43	\$ 24.80	\$ 23.50	\$ 22.18	\$ 26.73	\$ 25.49
Diluted	29.09	27.14	25.69	23.25	22.07	20.94	25.01	23.93
Total Class A and Common shares outstanding (shares in thousands)								
	27,263	27,691	27,740	27,758	27,758	27,758	27,839	27,956

Over the past eight 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.

Investment management and advisory fees and trailer commissions 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 are the significant insurance commissions earned in the MGA business, which have grown in significance, and are less correlated to the volatility of the financial markets. However, volatility may arise in the MGA revenue from the timing of large insurance policies being placed by contracted advisors. As IDC WIN has built a business with a significant number of top-producing advisors, and these advisors deal mainly in significantly larger and more sophisticated insurance policies, the timing of the placement of these policies can affect the timing and the level of the insurance commission revenue earned. In addition, some cyclicity of sales commissions and renewal commissions exist in IDC WIN, where the first and the fourth quarters of each year tend to have higher sales and as a result, higher Net commission revenues than the other quarters. In the Corporate Activities and Investments Segment, some increases 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" mid-year dividends. In addition, the timing of consolidation or deconsolidation of certain investment funds or disposal of securities can also have an impact on the level of dividend income recorded in the period.

Net gains (losses) reflect changes in fair values of the securities during each period, driven by the volatility of the financial markets in which Guardian's securities trade. The volatility of Net gains (losses) also directly impacts Net earnings (losses) attributable to shareholders. In Q1 of 2020, the pandemic-induced bear market had a negative effect on Guardian's fair value of securities, resulting in Net (losses). Large increases in AUM in Q4 of 2020 and AUA in Q1 of 2021 reflect the acquisitions of Agincourt and GPI completed in those periods.

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

RISK FACTORS

Guardian is exposed to a number of risk factors, including the key risk factors listed below. A key component of a successful business is its ability to manage its risk. Due to the nature of Guardian's businesses, its largest risk is tied to its exposure to financial markets. A significant portion of its revenue is derived from management of client assets or advisory on clients' wealth. During the current year, due to the ongoing pandemic disruptions, many of the risks listed below are heightened and may be more challenging to manage or mitigate. Readers are encouraged to refer to Note 14 to Guardian's Second Quarter 2021 Consolidated Financial Statements for additional information on financial risk management.

Market Risk

Markets can have a significant effect on the value of both clients' portfolios and our earnings, since investment management and advisory fees, which make up a significant part of our revenues, are generally based on market values. In the Wealth Management Segment, market fluctuations can significantly impact the amounts being invested by clients, thereby increasing or decreasing our commission revenues. We manage the risk of market fluctuations by having a diversified client base with different investment needs, and by having a variety of products and services, which may be attractive in different market environments and which have different correlations to equity and other financial markets and to each other. Guardian's securities 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 risk of price fluctuations. The potential impact of market fluctuations on the value of Guardian's securities is quantified in Note 14 of Guardian's Second Quarter 2021 Consolidated Financial Statements. Guardian manages this risk through professional in-house investment

management expertise, which takes a disciplined approach to investment management. All securities are held by well-known independent custodians chosen by Guardian. As at June 30, 2021, Guardian holds \$288 million of BMO shares (December 31, 2020 – \$222 million), which represents 41% of Guardian's securities (December 31, 2020 – 35%). 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 concentrated exposure over several years, having sold 2.7 million shares since the second quarter of 2013. The remainder of Guardian's securities portfolio is more diversified, from both an asset class and a geographical perspective. The concentration risks by type as a percentage of total securities is summarized in the following table:

As at (as a percentage of securities)	June 30 2021	December 31 2020
Bank of Montreal common shares	41%	35%
Other Canadian equity securities and real estate	5%	6%
Canadian equities and real estate	46%	41%
Non-Canadian equities	48%	50%
Short-term and Fixed income securities	5%	9%
	99%	100%

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 (losses), but are recorded in the Net change in foreign currency translation on foreign subsidiaries in Guardian's Consolidated Statements of Operations and Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. With the acquisition of Alta and Agincourt, Guardian also recognizes obligations to non-controlling interests on its balance sheet, which are denominated in US dollars. As these are expected future transactions between equity interest holders, the changes in the value of these obligations, 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, in that they are not actively managed, due to the long-term nature of the 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 the foreign currency exchange rates compared to the Canadian dollar. From time to time, Guardian may record certain foreign exchange gains (losses) in Net earnings, such as on the current US Dollar borrowings outstanding, which were used to finance foreign acquisitions such as Alta and Agincourt. This risk is mitigated by an offsetting, similar amount being recognized on the investment in these foreign subsidiaries as Net change in foreign currency translation on foreign subsidiaries, as discussed above. Guardian may also record Net gains (losses) on Canadian dollar cash balances held by foreign subsidiaries. These foreign exchange gains and losses result in similar offsetting Net gains (losses) being recorded in Other comprehensive income as discussed above. Readers are encouraged to refer to Note 14 in Guardian's Second Quarter 2021 Consolidated Financial Statements for further discussion and sensitivity analyses.

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 in the Dealers business, which are secured by marketable securities in margin accounts. Guardian periodically reviews the financial strength of all of its counterparties, and if the circumstances warrant it, Guardian takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in fixed-income mutual funds is managed by the monitoring of the activities of the portfolio manager who, through diversification and credit quality reviews of the funds' investments, manages the funds' credit risk. From time to time, advisors in the Dealers or the MGA businesses may owe advances received or amounts resulting from reversal of commissions to the Dealer or the MGA. The credit risk associated with these amounts is mitigated by management's review of the advisors' abilities to repay the advances or the potential commission reversals, particularly in the MGA business, before amounts are paid to the advisors.

Interest Rate Risk

Guardian's most significant exposure to interest rate risk is through its bank loans and borrowings. The interest rates on these borrowings are short-term, and Guardian's interest expense and net earnings will fluctuate with the changes in short-term rates. Guardian manages interest rate risk in its international banking operations, largely through matching the interest rates and maturity dates of Client deposit liabilities with Interest-bearing deposits with banks. The interest rate risk associated with Guardian's investment in fixed-income mutual funds is managed by monitoring the activities of the portfolio manager, who manages this risk by positioning the portfolio for various interest rate environments.

Liquidity Risk

Guardian manages liquidity risk through the monitoring and managing of cash flows from operations, by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total \$160 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 Management Discussion and Analysis. The combination of the cash flows from operations, the securities holdings and the borrowing facilities provides sufficient cash resources to manage its liquidity risk.

Certain financial market events may cause disruptions, as recently witnessed with the global COVID-19 pandemic, and cause a tightening of liquidity in the market, making it difficult or more expensive for Guardian to borrow under its facilities. Guardian's large portfolio of liquid securities can offset some of the risk of tightening of market liquidity.

Product Performance Risk

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

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 and services 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.

Regulatory and Legal Risk

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

Advisory Risk

Because of the number of in-house and independent advisors who publicly represent the Dealers and the MGA businesses, there are risks associated in their dealings with their clients. These risks are mitigated by the strong compliance and product review capabilities of these businesses, significant management oversight and insurance coverage carried by both these businesses and the independent advisors.

Key Personnel Risk

The success of Guardian is highly dependent on key personnel, including its senior management and investment professionals. The loss of any of these individuals, or an inability to retain these individuals and attract the best of the brightest talent, could have a negative impact on Guardian. To mitigate this risk, Guardian monitors the industry to competitively compensate these individuals, invests into the business to create an environment where both Guardian and these individuals can succeed, and evaluates, on an ongoing basis, the succession plans in place for these key individuals. Guardian's financial strength provides resources necessary to competitively compensate these individuals and to allow us to invest in the business.

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 or remote connections to internal data centres, 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.

The cyber security risk has increased while the majority of Guardian's employees are working remotely and connecting to Guardian's data centres as part of its Business Continuity Plan. Guardian has heightened its monitoring of the internal network traffic and the monitoring of developments in the latest known cyber threats to enhance security controls, where appropriate.

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, 2020, 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. The valuation approach to level 3 securities is most sensitive to the level of AUM associated with the issuer of the security. The valuation approach to Investment Management Segment goodwill is most sensitive to the levels of AUM within the Segment. The valuation approach to Wealth Management Segment goodwill is most sensitive to the levels of AUA and annual service fees within the Segment. The goodwill in all units are tested annually for impairment. In addition, Guardian reviews goodwill for indications of impairment at the end of each reporting period, and if indications of impairment exist, the goodwill is then assessed for impairment in that period.

NON-IFRS MEASURES

EBITDA attributable to shareholders (formerly EBITDA) and EBITDA attributable to shareholders per share (formerly EBITDA per share)

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

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

For the periods ended June 30, (\$ in thousands)	Three months		Six months	
	2021	2020	2021	2020
Net earnings (loss), as reported	\$ 66,831	\$ 51,244	\$ 117,692	\$ (83,667)
Add (deduct):				
Income tax expense (recovery)	10,835	5,437	19,449	(10,128)
Net (gains) losses	(56,467)	(43,254)	(98,438)	118,035
Stock-based compensation	762	676	1,428	1,314
Interest expense	351	373	696	1,295
Amortization	5,183	4,427	10,157	8,759
Non-controlling interests	(2,787)	(1,601)	(5,065)	(3,936)
EBITDA attributable to shareholders	\$ 24,708	\$ 17,302	\$ 45,919	\$ 31,672

Adjusted cash flow from operations attributable to shareholders (formerly Adjusted cash flow from operations) and Adjusted cash flow from operations attributable to shareholders per share (formerly Adjusted cash flow from operations per share)

Guardian defines Adjusted cash flow from operations attributable to shareholders as net cash from operating activities, net of changes in non-cash working capital items and non-controlling interests. Adjusted cash flow from operations attributable to shareholders 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 attributable to shareholders per share is calculated using the same method, which is used to determine Net earnings available to shareholders per share, including any adjustment to the average number of shares outstanding, or to income, to calculate the dilutive effect.

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

For the periods ended June 30, (\$ in thousands)	Three months		Six months	
	2021	2020	2021	2020
Net cash from operating activities, as reported	\$ 26,362	\$ 24,817	\$ 32,419	\$ 29,067
Add (deduct):				
Net change in non-cash working capital items	(4,533)	(7,823)	9,933	3,477
Non-controlling interests	(2,628)	(1,591)	(4,659)	(3,821)
Adjusted cash flow from operations attributable to shareholders	\$ 19,201	\$ 15,403	\$ 37,693	\$ 28,723

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

The last year and a half has marked unique and unprecedented challenges for the entirety of humankind. While the world remains in the midst of its largest public health crisis in at least a century, recent developments give hope that we are in the latter stages of the pandemic. The biggest source of progress has been on the vaccine front. After an initial lag in the rollout as logistical issues were addressed and production brought up to speed, the inoculation effort has gained significant momentum in recent months. As vaccination rates increased, infections, hospitalizations and death rates initially began to decline, but new variants, in particular, the Delta variant, started to cause an uptick in cases. The main motivation behind government stringency measures, however, is not so much to prevent the spread of infection as it is to prevent health care systems from becoming overwhelmed. Generally, a rise in infections comes with an uptick in severe cases that require intensive treatment, so governments do their best to contain the contagion and ease the pressure on health care systems. The current example of the UK, appears to provide early evidence that vaccines are helping to blunt the severity of infection, keeping hospitalizations, and death rates low even as new variants start to spread. This gives us hope that restrictions can still be eased, and if they become necessary again, will not need to come back as strong as before. The relaxing of restrictions is an important factor underpinning growth prospects given the implications for both supply and demand.

If we are correct that renewed restrictions, if any, will be lighter than they have been in the past year, there is plenty of evidence that the global economy is headed for a period of strong growth. Sentiment among consumers has become very positive, as have household finances, corporate earnings estimates for the next three years have been consistently increasing, and there is expected to be significant pent up demand from both consumers and businesses. While some pressures are building in inflation numbers, and there are concerns about unfilled job positions, we suspect that as we slowly transition to a near normal fiscal, and economic environment these pressures will show evidence of abating. While there have been fears that monetary policy accommodation will be withdrawn early due to the inflation pressures, monetary authorities have been quick to signal that tightening is not to be expected any time soon. Given the above, we expect strong economic growth to continue, and believe risk assets will also continue to have strong returns.

Guardian is fortunate to operate in the investment and wealth management segments of the economy. During the ongoing Global Pandemic we have not been forced to shut down operations, our revenues to date have not been negatively impacted, and perhaps even assisted, by the monetary and fiscal stimulus in response to COVID-19. Despite the uncertainty of the pandemic, Guardian has demonstrated its ability to “stay the course” by announcing new acquisitions, and hiring new people, as well as launching and supporting new initiatives.

In most advanced economies, the signs are that the crisis is being contained by vaccination along with other preventative measures, but we know it is not yet over. Guardian is in a position to focus on identifying new avenues of growth for the company, as well as supporting those initiatives we have already embarked on. Our goal is to have the flexibility to continue prudently investing in our growth initiatives, our people, and service levels to our clients and partners, without being forced to make unpleasant decisions as market, economic and business conditions fluctuate. With the growing numbers of vaccinated people, the worst of the pandemic in most of the developed world seems to be behind us, we look forward to the time we can safely and methodically transition our company back to more normal operations. We are proud that we have been able to keep our employees active and safe; our clients well taken care of; and have had the ability to provide some degree of stability and certainty to all of our stakeholders during this period of heightened anxiety. We will always do our utmost to support all of our business lines, but particular focus is likely to be required on our two newest initiatives. Our recently acquired Ultra High Net Worth / Outsourced Chief Investment Officer operations and the Canadian Retail Asset Management initiative will likely need us to make a variety of investments to improve their capabilities before they become meaningful contributions to our earnings. Our healthy, liquid balance sheet gives us confidence that we can sustain all needed initiatives, and we expect to manage any exogenous factors to allow us to strive for continued positive operating earnings and free cash flow generation in future quarters.



Our history. Your future.

Guardian Capital Group Limited

Commerce Court West
Suite 3100, P.O. Box 201
Toronto, Ontario
Canada M5L 1E8

Tel: 416-364-8341
www.guardiancapital.com