

MANAGEMENT'S DISCUSSION AND ANALYSIS

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In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the three month period ended June 30, 2022 and the comparative period in the year 2021, as well as to certain other prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2021 Annual Report. This discussion and analysis has been prepared as of August 11, 2022

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

Certain information included in this Management's Discussion and Analysis constitutes forward-looking information within the meaning of applicable Canadian securities laws. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", "continue", or similar expressions suggesting future outcomes or events or the negative thereof. Forward-looking information in this Management's Discussion and Analysis includes, but is not limited to, statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations. Such forward-looking information reflects management's beliefs and is based on information currently available. All forward-looking information in this Management's Discussion and Analysis is qualified by the following cautionary statements.

Although Guardian believes that the expectations reflected in such forward-looking information are reasonable, such information involves known and unknown risks and uncertainties which may cause Guardian's actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking information. Important factors that could cause actual results to differ materially include but are not limited to: general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, the duration and severity of the current COVID pandemic, the current conflict in the Ukraine, as well as those risk factors discussed or referred to in this Management's Discussion and Analysis and the other disclosure documents filed by Guardian with the securities regulatory authorities in certain provinces of Canada and available at www.sedar.com. The reader is cautioned to consider these factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking information, as there can be no assurance that actual results will be consistent with such forward-looking information.

The forward-looking information included in this Management's Discussion and Analysis is provided as of the date of this Management's Discussion and Analysis and should not be relied upon as representing Guardian's views as of any date subsequent to the date of this Management's Discussion and Analysis. Guardian undertakes no obligation, except as required by applicable law, to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the investment and wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: Investment Management, Wealth Management, 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") and Guardian Smart Infrastructure Management Inc. ("GSIM"), the London, UK-based GuardCap Asset Management Limited ("GuardCap"), the Salt Lake City, Utah-based Alta Capital Management, LLC ("Alta") and the 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 total client assets of \$74.6, consisting of \$46.9 billion in assets under management ("AUM") and \$27.6 billion in assets under administration and advisement ("AUA"). In addition, Guardian has a diversified portfolio of securities, which had a fair value of \$651 million at the end of the current quarter.

KEY EVENTS

During the quarter, Guardian entered into an agreement to acquire 60% interest in Rae & Lipskie Investment Counsel Inc. (operating as "The Raelipskie Partnership"), a Waterloo, Ontario-based private wealth management firm with over \$1 billion in assets under management. The transaction is expected to close in the third quarter of 2022, subject to regulatory approvals and other customary closing conditions. The purchase price for the 60% interest is \$7.2 million on closing, \$1.8 million due two years from closing, subject to various adjustments, and additional earn-outs over a five-year period from closing. The current employees of The Raelipskie Partnership will retain the remaining 40% ownership interest. This strategic acquisition continues to expand and enhance Guardian's wealth management offering.

Guardian, through its subsidiaries, entered into a new ten-year strategic partnership arrangement with a key corporate partner of the Dealers business. Under the enhanced partnership, Guardian paid \$7 million upon signing and agreed to pay an additional \$3 million over the next two years. The arrangement entitles Guardian to be the exclusive provider of mutual fund dealer, securities dealer and insurance managing general agency platform for the client's advisors and branches and a strategic partner for investment solutions.

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, EBITDA attributable to shareholders, EBITDA attributable to shareholders per share, Adjusted cash flow from operations, Adjusted cash flow from operations attributable to shareholders, Adjusted cash flow from operations attributable to shareholder per share. 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.

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	
	2022	2021	2022	2021
Net revenue	\$ 74,109	\$ 69,960	\$ 149,174	\$ 134,654
Expenses	56,952	48,761	112,651	95,951
Operating earnings	17,157	21,199	36,523	38,703
Net gains (losses)	(90,128)	56,467	(98,110)	98,438
Net earnings (loss) before income taxes	(72,971)	77,666	(61,587)	137,141
Income tax expense (recovery)	(4,747)	10,835	822	19,449
Net earnings (loss)	\$ (68,224)	\$ 66,831	\$ (62,409)	\$ 117,692
EBITDA	\$ 25,592	\$ 27,495	\$ 51,962	\$ 50,984
Adjusted cash flow from operations	18,485	21,829	38,434	42,352
Attributable to shareholders:				
Net earnings (loss)	\$ (69,698)	\$ 65,138	\$ (65,436)	\$ 114,763
EBITDA	23,042	24,708	46,888	45,919
Adjusted cash flow from operations	16,218	19,201	33,973	37,693
Per share amounts (diluted):				
Net earnings (loss)	\$ (2.85)	\$ 2.42	\$ (2.68)	\$ 4.24
EBITDA	0.94	0.92	1.80	1.70
Adjusted cash flow from operations	0.63	0.72	1.31	1.39

As at (\$ in millions, except per share amounts)	2022 June 30	2021 December 31	2021 June 30
Shareholders' equity	\$ 743	\$ 839	\$ 780
Securities	651	752	698
Per share amounts (diluted):			
Shareholders' equity	\$ 28.74	\$ 31.53	\$ 29.09
Securities	25.17	28.27	26.03

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

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

As at (\$ in millions)	2022 June 30	2021 December 31	2021 June 30
Assets under management			
Institutional			
Global equities	\$ 22,239	\$ 27,298	\$ 23,112
Canadian equities	5,246	7,858	7,647
Fixed income	15,376	16,750	16,879
Institutional assets under management	42,861	51,906	47,638
Wealth management	4,070	4,435	4,003
	\$ 46,931	\$ 56,341	\$ 51,641
Assets under administration and advisement			
Dealers	\$ 15,711	\$ 18,055	\$ 16,528
MGA segregated	7,971	9,115	7,833
Outsourced Chief Investment Officer and other	3,944	4,338	5,541
	\$ 27,626	\$ 31,508	\$ 29,902
Total client assets	\$ 74,557	\$ 87,849	\$ 81,543

Guardian is reporting total client assets for the quarter ended June 30, 2022 of \$74.6 billion.

AUM was \$46.9 billion as at June 30, 2022, a 9% decrease from \$51.6 billion as at June 30, 2021, and a 17% decrease from \$56.3 billion as at December 31, 2021. The decreases in AUM compared to the prior periods were due largely to the negative performance of global financial markets and approximately \$1.6 billion in net outflow of institutional client assets in the latter part of the current quarter. The redemptions were due largely to the headwinds that have plagued this industry for some time, the continued shrinking allocation to the Canadian Equity asset class and the internalization of investment management functions by institutional clients. AUA was \$27.6 billion as at June 30, 2022, an 8% decrease from \$29.9 billion as at June 30, 2021, and a 12% decrease from \$31.5 billion as at December 31, 2021.

RESULTS OF OPERATIONS

The Operating earnings of Guardian's business segments are summarized in the following table:

For the periods ended June 30, (\$ in thousands)	Three months		Six months	
	2022	2021	2022	2021
Investment management	\$ 9,292	\$ 11,257	\$ 20,658	\$ 20,871
Wealth management	6,533	7,758	13,280	14,520
Corporate activities and investments	1,332	2,184	2,585	3,312
	\$ 17,157	\$ 21,199	\$ 36,523	\$ 38,703

For the quarter ended June 30, 2022, Guardian is reporting Operating earnings of \$17.2 million, a \$4.0 million, or 19% decrease from the \$21.2 million reported in the same quarter of 2021. EBITDA for the current quarter was \$25.6 million (attributable to shareholders \$23.0 million), a \$1.9 million, or 7% decrease from \$27.5 million (attributable to shareholders \$24.7 million) in the same quarter of 2021. Net revenue in the current quarter increased to \$74.1 million, a \$4.2 million increase from the same quarter in 2021. Although at the end of the current quarter the AUM was lower than in the comparative period, the Net revenue was slightly higher as the average AUM was also slightly higher in the current quarter. The large net outflows of Canadian Equity strategy assets mentioned above were largely in the latter part of the current quarter. As a result, the full quarter's revenue impact of the lost assets will be reflected in the next quarter's results. Expenses in the current quarter were \$57.0 million, an increase of \$8.2 million compared to the same quarter of 2021. The increase in expenses is due to a combination of continued investments into our business to support its current and future growth plans as well as certain one-time costs incurred during the current quarter. Our multi-year strategic investments to support our future growth include strengthening our retail distribution capabilities, the build out of the recently formed Guardian Smart Infrastructure ("GSIM") team, the continued build out of GPI and the integration of the Modern Advisor technology platform. These investments accounted for \$1.2 million of the increase in expenses with nominal growth in revenue. The Operating loss incurred by these business units were \$2.8 million in the current quarter. The one-time costs incurred in the current quarter were the transaction costs associated with the pending acquisition of The RaelLipskie Partnership and the strategic partnership arrangement entered into with a key corporate client of our Dealers business, and the restructuring costs associated with the decision to no longer pursue the build out of the Emerging Markets Debt ("EMD") investment team. The recent events in the Ukraine have significantly changed the outlook for emerging market debt business and the prospects for new entrants, like us, would be even more challenging. The total of these one-time costs amounted to \$1.2 million in the current quarter, including \$0.7 million of EMD restructuring costs.

Net losses in the current quarter were \$90.1 million, compared to Net gains of \$56.5 million in the same quarter in the prior year. The largest portion of the Net losses in the current quarter was attributable to the decreases in fair values of Guardian's securities holdings, which were impacted by the negative performance experienced in the global financial markets. Readers are encouraged to refer to Note 10 in Guardian's Second Quarter 2022 Consolidated Financial Statements for a detailed breakdown of the Net gains (losses).

Net loss attributable to shareholders was \$69.7 million, compared to Net earnings attributable to shareholders of \$65.1 million in the same quarter in the prior year. The decrease was due to a large swing to Net losses on Guardian's securities holdings in the current quarter, compared to Net gains in the prior year, and to a lesser extent, by the decrease in Operating earnings over the same period.

Adjusted cash flow from operations for the quarter was \$18.5 million, a \$3.3 million decrease from \$21.8 million in the same period in 2021. The decreases is in line with lower Operating earnings in the current period compared to the same period in 2021.

Operating earnings by segment are described below.

Investment Management Segment

The Investment Management Segment's Operating earnings in the current quarter were \$9.3 million, a \$2.0 million, or a 17% decrease from \$11.3 million in the same quarter in the prior year. Included in the current quarter's Operating earnings are \$2.0 million in Operating losses incurred in the initial build out of the GSIM team and the continued build out of our retail distribution capabilities. The expenses and losses associated with both of these strategically important initiatives are expected to rise in the short-term, dampening our earnings, but with the aim of developing them into meaningful contributors to our earnings in the near future. EBITDA for the current quarter was \$12.0 million, a \$1.4 million, or 11% decrease from \$13.4 million in the same quarter in the prior year. Net revenue in the current quarter was \$37.7 million, a \$1.6 million, or 4% increase from \$36.0 million reported in same quarter in the prior year. Although at the end of the current quarter the institutional AUM was lower than in the comparative period, the average AUM was slightly higher in the current quarter, resulting in slightly higher Net revenue in the current quarter. The large net outflows of Canadian Equity strategy assets were largely in the latter part of the current quarter. As a result, the full quarter's revenue impact of the lost assets will largely be deferred to the next quarter. The expenses in the Segment increased 14% to \$28.4 million compared to the second quarter of 2021. Included in the increase are certain one-time costs and higher employee compensation expenses associated with the additional employees hired over the period, including those associated with the build out of the recently formed GSIM team. The one-time costs included approximately \$0.7 million in restructuring charge related to the decision not to continue the build out of the EMD team.

Wealth Management Segment

The Wealth Management Segment's Operating earnings in the current quarter were \$6.5 million, a \$1.2 million or 16% decrease from \$7.8 million in the same quarter in the prior year. EBITDA in the current quarter was \$10.9 million, a 2% decrease from \$11.1 million in the comparative period. The current quarter's Net revenue increased 5% to \$31.0 million, compared to the same quarter in 2021, consisting of \$20.1 million in Net commission revenue, \$6.6 million in Net management and advisory fees, \$3.3 million in Administrative service income and \$1.0 million in Interest income. The increase was driven largely by the increased commission revenue earned in the MGA and the Dealers and Interest income earned in the Dealers. Net management and advisory fees decreased slightly to \$6.6 million. Expenses in the current quarter were 12% higher at \$24.5 million, compared to the prior year. Included in the current quarter's expenses are one-time costs associated with the pending acquisition of The RaelLipskie Partnership, the costs associated with entering into the strategic partnership arrangement and the ongoing strategic investments into the development of a wealth ecosystem. The ecosystem aims to incorporate the Dealers' advisor network and Modern Advisors' technology platform to increase utilization of Guardian's investment solutions by independent advisors.

IDC WIN, our MGA business, delivered EBITDA of \$8.2 million (EBITDA attributable to shareholders of \$6.7 million) in the current quarter, a modest decrease from 8.4 million in the same quarter in 2021. Net commission revenue grew 5% to \$15.8 million in the current quarter, compared to the same quarter in 2021. The increase was largely due to a \$1.1 million increase in renewal commissions to \$7.9 million, partially offset by lower sales commissions. The sales volumes were more modest in the current quarter compared to the record sales volumes experienced throughout 2021. The contractual premiums on life insurance policies sold ("Premiums Sold"), which drive the sales commissions, were \$39 million in the current quarter, compared to \$49 million in the same quarter of 2021. Premiums Sold in the current period are good indicators of future revenue stream increases. As these policies are renewed, IDC WIN will earn renewal commissions in those future periods.

Corporate Activities and Investments Segment

The Corporate Activities and Investments Segment's Operating earnings for the current quarter were \$1.3 million, a \$0.9 million decrease from the \$2.2 million earned in the same quarter in the prior year. The current quarter's Net revenue increased 26% to \$5.7 million, compared to the same quarter in 2021. The growth in revenue was due largely to the increase in the dividend income earned on the Securities, including our holdings of BMO shares, which increased its dividends per share in the first quarter of 2021. The increase in Net revenue was offset by higher compensation costs, including the effects of additional employees hired since the second quarter of 2021 to support the growth of the operating businesses, and, to a lesser extent, higher interest expenses resulting from increased borrowings as well as higher interest rates on those borrowings.

LIQUIDITY AND CAPITAL RESOURCES

The strength of Guardian's balance sheet has enabled Guardian to attract Associates; provide clients with a high level of confidence and comfort; 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)	2022 June 30	2021 December 31	2021 June 30
Securities, carried at fair value			
Proprietary investment strategies			
Short-term and fixed-income securities	\$ 16,715	\$ 19,589	\$ 18,916
Canadian equities	12,482	13,832	12,803
Global equities	265,026	335,460	310,608
Canadian real estate	35,915	28,216	24,904
	330,138	397,097	367,231
Bank of Montreal common shares	276,007	308,834	288,290
Short-term securities	8,688	8,227	15,179
Equities	35,838	37,727	27,444
Securities	\$ 650,671	\$ 751,885	\$ 698,144
Securities per share, diluted	\$ 25.17	\$ 28.27	\$ 26.03

Guardian's securities as at June 30, 2022 had a fair value of \$650.7 million, or \$25.17 per share, diluted, compared with \$751.9 million, or \$28.27 per share, diluted, at the end of 2021. Shareholders' equity as at June 30, 2022 amounted to \$742.9 million, or \$28.74 per share, diluted, compared to \$838.5 million, or \$31.53 per share, diluted, at the end of 2021. In the current quarter, Guardian returned to its shareholders \$6.3 million in dividends and \$17.9 million in share buybacks.

In addition to its strong balance sheet, Guardian has, under various borrowing arrangements, total borrowing capacity of \$175.0 million. As at June 30, 2022, the total borrowings amounted to \$131.2 million, compared to \$114.9 million at the end of 2021. Guardian's Adjusted cash flow from operations attributable to shareholders for the current quarter was \$16.2 million, compared to \$19.2 million in the same quarter in 2021. The decrease in the current quarter, compared to the same period one year earlier, was primarily due to lower Operating earnings. Guardian uses its Adjusted cash flow from operations attributable to shareholders primarily to fund its working capital, pay its quarterly dividends, repurchase shares under its Normal Course Issuer Bid, fund its capital expenditures and repay debt where possible. From time to time, Guardian may use a combination of Adjusted cash flow from operations attributable to shareholders, debt and disposal of Securities to help finance larger 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, 2022 (\$ in thousands)	Total	Payments due by period			
		Within one year	2 - 3 years	4 - 5 years	After five years
Bank loans and borrowings	\$ 131,158	\$ 131,158	\$ --	\$ --	\$ --
Third party investor liabilities	80,612	80,612	--	--	--
Client deposits	55,148	55,148	--	--	--
Accounts payable and other liabilities	123,992	116,329	7,663	--	--
Payable to clients	96,385	96,385	--	--	--
Commitments	28,016	26,216	1,800	--	--
Scheduled lease payments, undiscounted	14,529	3,619	5,901	3,303	1,706
Total contractual obligations	\$ 529,840	\$ 509,467	\$ 15,364	\$ 3,303	\$ 1,706

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. Commitments include the \$9.0 purchase price due pertaining to the pending acquisition of the 60% interest in The RaelLipskie Partnership, which is expected to close in the third quarter of 2022.

SUMMARY OF QUARTERLY RESULTS

The following chart summarizes Guardian's financial results for the past eight quarters:

	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
<i>As at (\$ in millions)</i>								
Assets under management	\$ 46,931	\$ 53,123	\$ 56,341	\$ 53,113	\$ 51,641	\$ 47,945	\$ 45,984	\$ 32,733
Assets under administration	27,626	30,526	31,508	30,015	29,902	28,376	22,289	20,755
Total client assets	74,557	83,649	87,849	83,128	81,543	76,321	68,273	53,488
<i>For the three months ended (\$ in thousands)</i>								
Net revenue	\$ 74,109	\$ 75,065	\$ 78,049	\$ 72,384	\$ 69,960	\$ 64,694	\$ 63,724	\$ 52,042
Operating earnings	17,157	19,366	22,314	20,771	21,199	17,504	18,493	12,108
Net gains (losses)	(90,128)	(7,982)	52,331	(8,146)	56,467	41,971	80,983	35,739
Net earnings (losses)	(68,224)	5,815	64,451	8,597	66,831	50,861	87,083	42,652
Net earnings (loss) attributable to shareholders	(69,698)	4,262	62,421	7,054	65,138	49,625	86,039	42,201
<i>(in \$)</i>								
Net earnings (loss) attributable to shareholders:								
Per Class A and Common share								
Basic	\$ (2.85)	\$ 0.17	\$ 2.52	\$ 0.28	\$ 2.59	\$ 1.95	\$ 3.38	\$ 1.66
Diluted	(2.85)	0.16	2.35	0.27	2.42	1.83	3.17	1.56
Dividends paid on Class A and Common shares	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.16
<i>As at</i>								
Shareholders' equity (\$ in thousands)	\$ 742,917	\$ 828,404	\$ 838,520	\$ 781,334	\$ 780,323	\$ 737,363	\$ 699,610	\$ 631,863
Per Class A and Common share (in \$)								
Basic	\$ 30.68	\$ 33.67	\$ 33.89	\$ 31.56	\$ 31.15	\$ 29.02	\$ 27.43	\$ 24.80
Diluted	28.74	31.27	31.53	29.40	29.09	27.14	25.69	23.25
Total Class A and Common shares outstanding (shares in thousands)	26,342	26,892	26,954	26,968	27,263	27,691	27,740	27,758

Over the past eight quarters presented above, Guardian's Net revenue has generally trended in the same direction as the changes in Total client assets. These fluctuations can also influence Operating earnings and are 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 global financial markets and additions and withdrawals of client assets. Offsetting this volatility are the significant insurance commissions earned in IDC WIN, which are less correlated to the volatility of the financial markets. However, fluctuations may arise in IDC WIN's revenue from the timing of large insurance policies 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.

The Net revenue decreased in the first and second quarters of 2022 as the Total client assets decreased from the preceding quarter, driven by the negative performance in the global financial markets. Net gains (losses) reflect changes in fair values of the securities during each period, driven by the volatility of the global financial markets in which Guardian's securities trade. The volatility of Net gains (losses) also directly impacts Net earnings (losses) attributable to shareholders. The global financial markets had continued positive performance since Q1 2020 until Q3 2021, when a portion of our securities exposed to the Emerging Market equities, which experienced a negative return, decreased in fair value. In Q1 and Q2 of 2022, negative performance in global financial markets caused the fair value of securities to decline in value. 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 2022 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 also impact the amounts being invested by clients, thereby increasing or decreasing our Net commission revenue. 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 2022 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 independent custodians chosen by Guardian. As at June 30, 2022, Guardian holds \$276 million of BMO shares (December 31, 2021 – \$309 million), which represents 42% of Guardian's securities (December 31, 2021 – 41%). 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 2022	December 31 2021
Bank of Montreal common shares	42%	41%
Other Canadian equity securities and real estate	8%	5%
Canadian equities and real estate	50%	46%
Non-Canadian equities	46%	50%
Short-term and Fixed income securities	4%	4%
	100%	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 2022 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 \$175 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 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, 2021, 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, EBITDA attributable to shareholders and EBITDA attributable to shareholders per share**

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and net gains or losses. EBITDA attributable to shareholders as EBITDA 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 measure to the non-IFRS measures:

For the periods ended June 30, (\$ in thousands)	Three months		Six months	
	2022	2021	2022	2021
Net earnings (loss)	\$ (68,224)	\$ 66,831	\$ (62,409)	\$ 117,692
Add (deduct):				
Income tax expense (recovery)	(4,747)	10,835	822	19,449
Net (gains) losses	90,128	(56,467)	98,110	(98,438)
Stock-based compensation	1,026	762	1,781	1,428
Interest expense	840	351	1,448	696
Amortization	6,569	5,183	12,210	10,157
EBITDA	25,592	27,495	51,962	50,984
Non-controlling interests	(2,550)	(2,787)	(5,074)	(5,065)
EBITDA attributable to shareholders	\$ 23,042	\$ 24,708	\$ 46,888	\$ 45,919

Adjusted cash flow from operations, Adjusted cash flow from operations attributable to shareholders and Adjusted cash flow from operations attributable to shareholders per share

Guardian defines Adjusted cash flow from operations as net cash from operating activities and net of changes in non-cash working capital items. Adjusted cash flow from operations attributable to shareholders as Adjusted cash flow from operations less non-controlling interests. Adjusted cash flow from operations 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. 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.

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	
	2022	2021	2022	2021
Net cash from operating activities	\$ 27,673	\$ 26,362	\$ 26,981	\$ 32,419
Add (deduct):				
Net change in non-cash working capital items	(9,188)	(4,533)	11,453	9,933
Adjusted cash flow from operations	18,485	21,829	38,434	42,352
Non-controlling interests	(2,267)	(2,628)	(4,461)	(4,659)
Adjusted cash flow from operations attributable to shareholders	\$ 16,218	\$ 19,201	\$ 33,973	\$ 37,693

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 world economy remains on very uncertain footing; inflation is apparent everywhere, the conflict in Ukraine shows no sign of abating and tensions are running high in other parts of the world, notably in East Asia. Concerns over the destructive nature of inflation have spurred global central banks into action, first with caution and then greater impetus, and while a shift away from highly stimulative policy is warranted, such adjustments take time to filter into the real economy, making them difficult to appropriately calibrate. This is a key reason why policymakers historically err, by doing too much to rein in surplus demand, instead pushing into deficit and the economy into recession. The risk of such a policy error looms even larger in the current environment given that issues on the supply-side, largely insulated from the impact of monetary policy in the short term (central banks cannot do anything to immediately pump more oil, grow more grains, produce more microchips or clear port traffic), share the blame for the current pricing predicament.

Against this backdrop, global economic dataflow has generally underperformed throughout the last few months, as sanguine expectations have proven too optimistic. In response, forecasters have slashed their growth outlooks, with earlier expectations for above-trend growth giving way to much more tepid rates. Economists' consensus views of a recession across developed markets have risen sharply over the last few months, with the assumed likelihood of a downturn in the next year amounting to a coin flip. Importantly, though, just because something is viewed as increasingly likely does not mean that it will materialize, as it is easier to avoid (or at least mitigate) accidents that can be seen coming. It is those unexpected shocks that seemingly come out of nowhere, and are thus inherently unpredictable, that tend to do the most damage. For the here and now, despite the growing concerns and numerous headwinds, growth momentum appears to remain broadly in place (albeit at a lower rate than a year ago), which is keeping global labour markets historically firm. The global purchasing managers' indexes for the manufacturing and services sectors remain comfortably in expansionary territory, indicating the economy in aggregate is continuing to expand at the halfway point of the year.

Clearly one of the best possible outcomes in the near term would be a moderation in inflation that eases the cost pressures on households and businesses alike, reducing the burden on central banks to use the blunt instruments in their respective toolboxes to tamp down demand. There are some positive developments on this front. For starters, there are growing indications that the pressures on the links within the global supply chain are easing.

Production is increasingly able to run at higher capacity as public health restrictions are scaled back globally, and goods are flowing more freely as shipping bottlenecks subside and transportation hubs face less congestion. Shipping costs have come off the recent highs, with the global benchmark freight rate for major east-west trade routes down 33% from its earlier peak. The resultant reduction in costs of production should be felt in goods prices in months to come. Further, consumer goods demand is ebbing from its blistering pace over the last two years, as spending transitions back in favour of the previously restricted services that dominated the household budget prior to the pandemic. Additionally, while commodity prices remain elevated, particularly for energy products due to the dislocation caused by sanction-induced constraints on Russian supplies, they have started to ease thanks to a combination of expectations for increased supply and the downgraded growth outlook. Any progress to reduce the effects from the ongoing war in Ukraine would be a welcome development here as well.

Ultimately, the outlook is more uncertain than usual; global growth momentum is slowing and there is still an abundance of headwinds combining with widespread pervasive negativity to create a fragile backdrop and raise the risk of a downturn materializing sooner rather than later – aggressively tightening policy may only serve to exacerbate the slowdown. Meanwhile, household and corporate balance sheets are strong and can withstand some turbulence while supporting continued economic growth, all assuming market participants do not drastically increase their pessimism about the future. The bottom line is that the outlook remains highly uncertain and the months ahead will see policymakers weigh each data point carefully to determine whether the odds favour the upside risks to inflation, the downside risks to growth or the baseline scenario of a soft landing, which is seeing its potential runway narrow.

Guardian's results are significantly affected by the level and performance of global stock and bond markets. During the pandemic, along with other market participants, our growth in assets under management and administration benefitted from the fiscal and monetary stimulus provided by governments around the world. In an inflationary environment such as the current period, central banks view controlling runaway inflation as critically important. The first attempts to reign in COVID-19-related inflation started with rolling back quantitative easing by selling securities held on central bank balance sheets, followed by substantial hikes of interest rates. Both quantitative easing and increases in prevailing interest rates tend to reduce the value of financial assets; this of course reduces Guardian's investment management fees, but such a development is somewhat offset by our ability to generate a larger interest rate spread on cash held on behalf of our clients in our Wealth Management segment. While our base case is that central banks will succeed in containing the current high rates of inflation, it is uncertain whether the monetary tightening that has already been implemented (with more expected to come), will be enough to bring the economy to recession, or whether strong corporate and household balance sheets combined with strong demand will keep the economy afloat. Nevertheless, in almost any scenario, Guardian's strong balance sheet, combined with the diversity in our sources of profitability, allow us the comfort of making long-term plans that are not necessarily reliant on the co-operation of events outside of our control.

We will continue upon our long-held path of innovating new product lines created from existing teams at Guardian, in addition to identifying new capabilities we wish to add and bringing in human and technological assets that will permit us to execute on those capabilities. Success in creating new products that can be sold through our existing platforms gives us an efficient way to grow Guardian's assets under management, generating revenue and profitability. We have a number of organic initiatives that fit well with this strategy, but we will continue to evaluate potential acquisition opportunities that can strengthen aspects of our business or accelerate our growth plans. We continue to believe in our strategy to combine organic with acquisitions for ongoing growth. Over the long term, shareholders can expect to experience the benefits of both strategies.



Our history. Your future.

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