# 2017 Guardian Capital Group Limited Annual Report

GUARDIAN CAPITAL

Our history. Your future.

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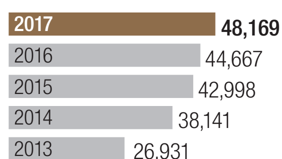
# 2017 **Financial Highlights**

"I am again happy to report...that Guardian delivered record earnings in 2017 and continued to generate increased dividends and overall returns to our shareholders."

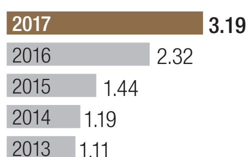
— James Anas,
Chairman of the Board




## Operating Earnings

For the years ended December 31 ($ in thousands)

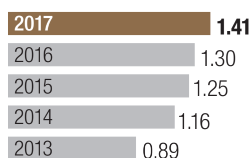
Operating Earnings increased 8% in 2017, reflecting the significant growth in net revenue, offset by increased expenses from continued strategic investments to build improved earnings in the future.




## Net Earnings Available to Shareholders (per share, diluted)

For the years ended December 31 (in $)

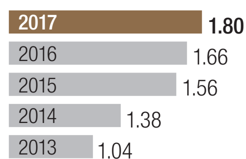
Net Earnings Available to Shareholders per share increased 38% in 2017, reflecting the improved Operating Earnings, and the significant increase in Net Gains on securities.




## Adjusted Cash Flow from Operations[1] (per share, diluted)

For the years ended December 31 (in $)

Adjusted Cash flow from Operations per share increased 4% in 2017, reflecting the growth in Operating Earnings and the effects of share repurchases.




## EBITDA[1] (per share, diluted)

For the years ended December 31 (in $)

EBITDA per share increased 8% in 2017, reflecting the growth in Operating Earnings and the effects of share repurchases.

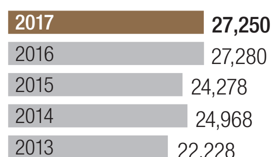
(1) These terms are not standardized measures under IFRS. Descriptions of these non-IFRS measures, as well as reconciliations to IFRS measures, where applicable, are provided under "Non-IFRS Measures" in the Management's Discussion and Analysis.

> "We have prudently and consistently invested for the future, building a company that is more diversified, complex, and resilient to the various changes that any given market cycle may present."
>
> — George Mavroudis, President and Chief Executive Officer

## Assets Under Management

As at December 31 ($ in millions)

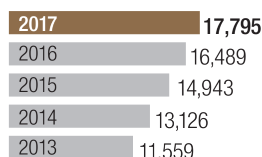
Assets Under Management remained substantially unchanged in 2017, as a result of overall positive market performance being offset by net outflow of client assets.




## Assets Under Administration

As at December 31 ($ in millions)

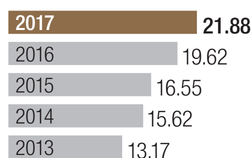
Assets Under Administration increased 8% in 2017, as a result of the recruitment of new advisors, additional net assets contributed by clients, and positive market performance.




## Shareholders' Equity (per share, diluted)[1]

As at December 31 (in $)

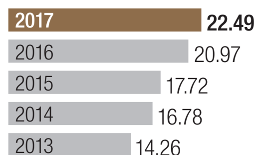
The Company's Shareholders' Equity per share increased 12% in 2017, reflecting the growth in the Company's net assets, including the significant increase in the value of its Securities, the profitable operations, net of amounts returned to shareholders during the year.




## Securities (per share, diluted)[1]

As at December 31 (in $)

The Securities per share increased 7% in 2017, reflecting the increase in the value of the Company's investments.



# Chairman's **Message**

**Dear Fellow Shareholders,**

I am again happy to report, on behalf of your Board of Directors, that Guardian delivered record earnings in 2017 and continued to generate increased dividends and overall returns to our shareholders.

Guardian's values and culture underline the company's strategy to initiate sustained successes, with a strong management team in place building a robust and innovative company. We will support Guardian's growth, regionally and internationally, organically and by acquisition. The stellar results for 2017 evidence both a successful business strategy, and its execution by a highly effective management team. Our company's strategic investments to build on strengths developed over the years include global initiatives with our UK investment management operation, and our recent acquisition of 70% of a US-based investment management firm fostering the core strengths of our company. The Board and senior management are mindful that with global growth and complex projects come increased opportunity and risk. Drawing upon the experience of our Board members and global executives, our risk management is constantly being reinforced to align with our growth.

We believe that management has again delivered on the pillars of our strategy. The momentum of the remarkable progress in 2017 has contributed to consistent earnings growth, and positions your company for sustained growth in shareholder value over the long term. We continue to have great confidence in the long-term success of Guardian – the strategy is sound and management is focused.

Following on the continued growth in earnings in 2017, your Board has declared a quarterly dividend of $0.125 per share, an increase of 25%, payable on April 18, 2018, to the shareholders of record on April 11, 2018.

Once again I want to acknowledge Guardian's leadership team headed by George Mavroudis, President and Chief Executive Officer, for the strong performance in all of our businesses. All of us as shareholders have benefitted from the team's efforts. I also wish to recognize the contributions of Guardian's associates, across all of our businesses. We congratulate each of them for their passion, tireless efforts and commitment to raise the bar yet again.

I would like to recognize all the Board members for their assistance and contribution over the last year in support of our management team, and for that I thank each of them.

On behalf of the Board of Directors, may I take this opportunity to thank our loyal shareholders for their trust and support. We will work hard with focused direction to continue to provide excellent value to shareholders.

*Respectfully,*
James Anas, Chairman of the Board

February 22, 2018

# President and Chief Executive Officer's **Message**

**Dear Shareholders,**

We are certain, beyond taxes and death, to constantly expect change in the world around us. Significant technological advances have accelerated the pace of change over the past decade and with it have brought great disruption to many industries. Technological disruption is indiscriminate of sectors; therefore, all businesses need to be constantly aware of the changing landscape and invest for a future which will give them the opportunity to compete against the various threats that they will face over time. Long-term shareholders in Guardian have been rewarded by the entrepreneurial spirit of the firm, which invests for both its current business and the business of the future. We have prudently and consistently invested for the future, building a company that is more diversified, complex, and resilient to the various changes that any given market cycle may present. By no means are we complete with delivering on our various strategic objectives; however, great progress has been made to build a company for our shareholders that will strive to generate a high degree of persistency and quality in its financial results. In 2017, the Canadian equity investment universe languished for most of the year relative to its comparable developed and developing markets and, with a heavy exposure to commodities and energy, the near-term expectations for the asset class remain moderate for investors. Despite this negative sentiment for the Canadian equity market, Guardian still succeeded, delivering new highs for such key financial metrics as assets under administration, shareholders' equity, operating earnings and adjusted cash flow from operations. The organization is better diversified from its historical dependency on the Canadian equity market and continues to build new drivers of growth that energize us for Guardian's future success. This annual report highlights key financial results for our various business segments, while offering commentary in areas where we are making significant investments to drive desired growth and sustainability of operating earnings and cash flow for the long term.

Guardian's core business continues to be led by its focus in the Investment Management Segment. This is a segment that is undergoing a global radical change due to philosophical debates on such subjects as: passive vs. active investing, traditional vs. alternative solutions, public vs. private, outsourcing vs. internalization and core vs. satellite, just to name a few of the industry's hotly contested subjects. Aside from these philosophical debates, there is also the pressure from technological changes that allow investors to seek solutions that can be delivered increasingly by available commoditized solutions from 'fintech' disruptors such as robo-advisors. Many of these themes also have an underlying pricing focus that has placed significant fee pressure on the industry. If the global forces of change to the investment management industry were not enough, we also have a Canada-specific threat that has been a constant headwind for the past number of years, owing to its historical overweight or bias toward its domestic market, which has been consistently reduced by many institutional investors. Over the past twenty years, we have seen institutional investor asset allocation to Canadian equities reduced toward the low teens or even single-digit percentage allocations. Detailed debate on the challenges and threats are available regularly across many industry white papers, academic research and daily print media. The executive team at Guardian is constantly considering these challenges and making investments that we feel will be able to withstand these many challenges, as well as likely to flourish despite these threats to the industry. Our primary goal over the last few years has been to diversify our investment management capabilities beyond our core Canadian competency. With the recent completion of our acquisition of Alta Capital Management, a growing Salt Lake City, US-based manager and our organic building of both a global systematic investment team in Toronto and a fundamental global and emerging market equity team in London, UK, we have built a meaningful amount of assets under management in non-Canadian investments. We believe that with a broad investment platform offering unique high-conviction and innovative multi-factor solutions, there will be considerable growth available across all of the platforms in the foreseeable future.

In addition to broadening our investment manufacturing capabilities, we have also been investing heavily to expand the distribution of our investment management capabilities. Through both proprietary and third-party distribution partnerships, we have broadened our geographic reach over the past number of years to add clients beyond Canada, including US, UK, Continental Europe and the Far East. We have also been expanding the client base across the three client segments we serve: institutional, retail intermediary and private wealth. Although progress can be observed, we are far from satisfied with our execution to date. Growth prospects to add to our client base are far greater than they have ever been. Institutionally, we have greater appeal to investors across the globe for our successful investment team and solutions added over the last several years. In the retail intermediary segment, we have significantly bolstered the roster of broker dealer partners in the US with whom we are positioned to work, following the acquisition of Alta which was very successful in building such relationships. We are excited to focus our joint resources to grow our product offering

*continued* ⇢

and assets on those networks. Lastly, but certainly not any less important, Guardian's private wealth business unit has demonstrated consistent growth over several years and is well-positioned to benefit from the significant financial inter-generational wealth transfer that we have witnessed in recent years.

With the expansion of our investment management business into other jurisdictions, it has become a great deal more complex. We are better prepared to deal with this complexity, due to our prudent organic investment over the years and the recent acquisition in the US. A tremendous intangible benefit gained over these years is the know-how and infrastructure to deal with these increased complexities. Overall, we have put in place the operational support and capacity to add assets under management and also expand the marginal fees we earn. Despite the industry challenges and the intense competition, we feel very excited that many of the investments we have made over the last few years will make our current business more resilient and position us for the opportunity for significant growth in the years ahead. In 2017, our Investment Management Segment delivered operating earnings of $20.4 million, a slight improvement over the prior year. Given the effort, time and financial commitment that has been expended to date, we believe there will be a great deal more growth to the overall operating earnings of this business segment. However, the timing of this success is difficult to predict with any accuracy. We believe we are close to some transformational changes, however, it is never lost on us that this business is one that requires the patience of time, as success is often years in the making. We will continue to monitor the strategy for this segment, and make the tactical investments we deem necessary to achieve the next meaningful increase in its operating earnings.

Worldsource, our Financial Advisory Segment, which serves independent financial advisors across Canada, had another successful year of growth in operating earnings. Both our Managing General Agency (MGA), which supports independent life insurance agents' production of life insurance and related sales, and our mutual fund and securities dealerships (Dealers) had good revenue growth leading to strong operating earnings growth in 2017. This segment contributed $14.5 million in operating earnings, representing roughly 30% of Guardian's total operating earnings. The improvement in earnings at Worldsource came despite significant expenditure increases at our Dealers to undertake the necessary and strategic re-development of our core technology platforms that support our advisor network. Upgrading our platform is part of our recognition that we must remain relevant with the changing times and the disruption that can be caused by new technologies. A proven platform that will allow for improved efficiencies for our advisor network and introduction of automated tools will allow us to improve our overall offering and lead to further success in maintaining and recruiting advisors. As with any major technology system implementation, there is likely to be some disruption, but keeping them to a minimum and managing them will be key to a successful transition to this new technology platform in 2018.

Our MGA business unit continues to deliver strong growth year after year and has been very successful in positioning itself as one of the leading agencies in the industry. The Canadian insurance industry receives more than 50% of life insurance sales from independent MGAs and, as one of the largest in the industry, we have gained a great deal of respect from the insurance carriers as a preferred provider. As a result, we continue to have great success in recruiting experienced independent insurance advisors to join our network. With a team of seasoned industry executives leading this business unit, the recruitment of advisors remains a strength for our dealership as we build our national platform. The team has also demonstrated the ability to identify acquisition opportunities with smaller regional MGA's. Over the years, we have delivered solid success in consolidating a number of smaller firms and believe we can selectively add to our platform through targeted tuck-in acquisitions. The success of our MGA strategy is a big contributor to diversifying our operating earnings from the traditional market influences of the investment management business, and has created a meaningful contribution to the intrinsic value for our shareholders. Both the Dealers and the MGA business are susceptible to the forces of technological changes. However, in both businesses we believe that the value of trusted relationships our advisors have built over many years will sustain and build this business. Through our network of advisors, Worldsource serves the needs of thousands of families. These relationships have taken years to acquire, and are not easily disrupted by the latest technology, as most clients prefer the guidance of a trusted advisor, particularly when their needs are not rudimentary solutions that can easily be advised through do-it-yourself solutions. The greatest competitive force to serving clients will be for advisor platforms such as Worldsource to embrace technology tools, which will combine the power of both elements to best serve the client.

In addition to the continued improvements in our Investment Management and Financial Advisory segments, investment income from our corporate securities portfolio also increased in 2017, despite a measured reduction in holding of significant tax-efficient dividend-paying common shares of Bank of Montreal and reinvesting into more diversified investment solutions managed by our investment teams. In total, during various stages of price appreciation in BMO, we sold 7.5% of our holding, or 300,000 shares, to end the year with a holding of 3,700,000 shares, with a fair market value of $372 million, representing approximately 57% of our total corporate marketable securities, down from 62% a year earlier. In 2017, global equity markets reversed their underperformance relative to Canada, which had occurred in 2016, justifying our conviction that diversifying our balance sheet outside Canada was a prudent move. The strong global equity

market returns in 2017 contributed to a substantial increase in Guardian's corporate investment portfolio, which ended the year at a record fair value of $652 million. We remain convinced that over the long term, having a good proportion of our corporate investment portfolio with exposure to quality large-cap global companies is a prudent management of risk, by diversifying both the concentration risk and currency exposure of the portfolio. This diversification is even more compelling as we use our corporate investment portfolio to strategically invest in new asset management capabilities, from which we expect to grow meaningful fee generating assets under management from new clients.

The combination of a diverse holding of financial service businesses and the strong liquid balance sheet of Guardian has positioned us to fund strategic opportunities and further diversify our capabilities, while continuing to invest in maintaining and strengthening our existing core competencies. As a management team, we are constantly on the lookout for high quality individuals, teams and ideas that can help us achieve our goals of meeting our clients' objectives, providing best-in-class solutions, and ultimately our desire to be viewed as a highly respected independent investment and wealth management firm. In the last few years, our investments in human capital has included the successful recruitment of senior management talent across the organization to provide the increased experience and depth required to tackle many of the growing opportunities for the group. We will continue to search for and hire bright, talented, and dedicated people in all of our lines of business, who will be given the opportunity to learn new skills with us and critically create new ideas and new ways to bring success to our firm, our people and our clients.

Over the last few years, we have commented on the possibility of complementing our traditional organic growth approach by taking advantage of our strong financial position and good reputation to acquire businesses in the financial services industry. With our acquisition of a majority position in Alta, we feel that we have partnered with a team that has a very good opportunity to help us attain all three of our major goals for an acquisition, namely: 1) providing an opportunity to develop a sustainable, profitable business; 2) diversifying from our concentrated exposure to Canadian equities; and 3) contributing to building our global footprint. We anticipate that 2018 will be a year during which we focus our efforts to integrate our newly acquired business in the US and seek higher growth from all the organic investments we have been making over the last few years. There remains an interest across all of our businesses to consider growth by acquisition; however we will, as always, remain cautious and disciplined when we look at complementary businesses, and will continually only consider potential partners who can deliver on one or more of these three key strategic objectives.

Quality companies generate strong free cash flows and, as we grow this financial metric, Guardian is committed to returning an ever-increasing amount of cash to its shareholders. In 2017, Guardian paid out more than $11 million in dividends, increasing our quarterly dividend from $0.085 a share to $0.10 a share, an increase of 17%. We also returned over $15 million to shareholders by repurchasing and cancelling more than 600,000 shares in 2017. Through a combination of dividends and share repurchases, Guardian returned to its shareholders more than 60% of the cash flow from operations generated in the year, and we have sufficient capacity to maintain and grow these distributions. Furthermore, despite the significant return of cash flow from operations to shareholders, we were also able to increase the shareholder equity per share and securities per share to $21.88 and $22.49 respectively as at 31 December, 2017, from $19.62 and $20.97 at the prior year-end.

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

*Warmest regards,*

George Mavroudis,
President and Chief Executive Officer

February 22, 2018

## INSTITUTIONAL INVESTMENT MANAGEMENT

Guardian's institutional investment management services are provided by Guardian Capital LP ("GCLP"), GuardCap Asset Management Limited ("GuardCap") and Guardian Capital Real Estate Inc. ("GCREI"), with GCLP being, by far, the largest. GCLP serves pension plan sponsors, broker dealer third-party platforms, closed-end funds, exchange traded funds and mutual funds, endowment funds, and foundations. GCLP's capabilities span a range of asset classes, geographic regions, and specialty mandates. One of the largest independent investment management firms in Canada, GCLP is the successor to our investment management business, which was founded in 1962.

Guardian's institutional assets under management ("AUM") were $24.3 billion at the end of 2017, substantially unchanged from $24.4 billion at the end of 2016. Although market returns in equities and bonds had a positive influence on our assets in 2017, a continued bias against Canadian equities, both at the institutional and retail levels, resulted in net flows out of that asset class. Institutional investors, especially, reduced their allocation to Canadian equities in favour of global equities and alternatives, and in some cases in favour of bonds, as many sponsors of defined benefit pension plans continued to de-risk. This is a trend we have witnessed for some years and may well have been exacerbated by the strong returns witnessed in 2016 and the related desire to lock-in these gains. Of note, both our fixed-income and global equity franchises benefited from positive net flows in 2017.

At the end of 2017, our Canadian equity strategies amounted to $12.3 billion, compared to $13.3 billion at the end of 2016, a net decrease of 8% compared to a market return of roughly 9%. Our AUM in foreign equity strategies were $3.9 billion at the end of the year, accounting for approximately 16% of our total AUM and represents our fastest area of growth over the last few years. Of note, the closing of our acquisition of Alta Capital Management in January, 2018 will approximately double the AUM in foreign equity. Our fixed income strategies also benefited from investors reducing their Canadian equity allocations, both at the retail level and at the institutional level. The fixed-income AUM at the end of 2017 was $8.1 billion, compared to $7.8 billion at the end of 2016, an increase of approximately 4% in an environment when bonds generated returns of less than 3%. As always, continued stability in the investment teams and organization, and strong client service and business development efforts, supported the business effectively in 2017.

### *Canadian Equity*

Canadian equities returned 9.1% in 2017. Although the absolute rate of return was quite reasonable, they lagged most of the equity markets in the developed and emerging markets, and notably the U.S., where the S&P500 returned 21.8% in U.S. dollars. Two sectors that experienced the strongest returns in the U.S. were Information Technology and Heath Care, while the second worst sector was Energy. The weights of these sectors in Canada (small for Information Technology and Health Care, and large for Energy; essentially the opposite of their respective weights in the U.S.) largely explain the divergence in performance in absolute terms. As well, small cap stocks in Canada lagged significantly the large cap market. Finally, although oil prices experienced positive tailwinds in 2017, the majority of Canadian oil stocks diverged from this trend - a very unusual event - and experienced losses in 2017. These general observations on the Canadian equity market largely explain the overall return of our strategies. Our Core equity strategy beat its benchmark and was a solid performer in 2017. Our Growth strategy, exposed to oil stocks and especially smaller cap names, lagged the benchmark. Finally, strategies with a bias toward income generation (a hallmark of Guardian's competencies) experienced relatively weak performance, due in part to their emphasis on energy stocks. Dividend yields in these strategies continue to exceed bond yields, and we expect that they will likely continue to do so for some time yet. The Canadian Focused strategy launched in 2015 continued to experience strong relative returns in 2017, finishing again in first quartile, and remains our strongest domestic performer since its inception. This approach aligns with the concentrated strategies managed by GuardCap, our London, UK-based investment management firm, to meet the increased demand for such products from large institutional investors worldwide. Guardian has one of the most-experienced Canadian Equity investment teams in the industry, with ten investment professionals who have an average of 21 years of experience overseeing a total of approximately $12.3 billion in AUM.

### *Global Equity*

Guardian has two global strategy teams. The Toronto-based team follows mainly a systematic approach, while our London-based team follows a fundamental approach and offers highly concentrated strategies. We believe these strategies complement each other and provide a broader set of choices to investors.

The Systematic Global Equity team experienced solid performance in 2017 in their growth strategies (our Global and International growth equity strategies are both first quartile performers over the most recent 4-year period), but faced weaker results in the family of dividend-biased strategies, which accounts for the majority of that team's AUM. The Fed has embarked on a tightening cycle which will pose additional challenges in stock performance for dividend payers in 2018. Nevertheless, we expect that our relative performance will improve, as we continue to build our portfolios emphasizing firms that grow both their earnings and dividends. In addition, we recently incorporated elements of artificial intelligence in our dividend strategies, the result of a two-year research project, and expect incremental improvements in returns starting in 2018. The longer-term performance history of the Global Dividend Equity strategy has been instrumental in placing us on several key retail intermediary platforms in Canada and the U.S. over the past few years. This acquired shelf space, along with an anticipated continued demand by retail investors for strategies with a bias toward income generation and lower volatility, positions us well going into 2018. We also expect that the strong returns of our growth strategies will attract new investors in the coming years and should provide an additional source of growth for the Systematic Global Equity team.

GuardCap, our UK subsidiary acquired in 2014, manages Fundamental Global Emerging Markets and Fundamental Global Developed Equities strategies. In 2017, they again experienced strong relative performance, continuing a long history of success for these professionals, dating back beyond their short tenure at Guardian. The global strategy outperformed its benchmark by 10.6% in 2017, while the emerging markets strategy outperformed its benchmark by 4.4%, both determined in Canadian dollars. We believe that our highly experienced investment team with a long history of solid performance will be increasingly successful with institutional investors. In 2017, we gained a number of international clients for the global strategy and hope to continue building on this momentum in 2018, now that the team has completed a three-year performance record with our organization, a period of time that many investors see as critical before committing significant assets. Finally, investor interest in concentrated strategies, especially by large institutional investors, appears to be growing. We are hopeful that we will continue to experience growth, and that 2018 will bring a number of new appointments.

### *Fixed Income*

Our fixed-income mandates cover a broad range of profiles (addressing various combinations of parameters such as duration, types of issuers, currencies and risk profiles), and a large number of portfolios are highly customized to meet specific client needs. 2017 was generally rewarding for all of our key mandates, those with a higher allocation to corporate credits faring generally better than those with heavier government allocations. Our consistent conservative style of management continues to appeal to investors seeking safety in their bond allocations, as evidenced by the continued growth experienced in our Liability Duration Investing ("LDI") strategies. Our approach to LDI is to construct portfolios tied to the liability structures of our clients, while seeking to add modest value above the rate of growth in underlying liabilities.

The ongoing investor appetite for higher-yielding securities supported continued growth in our high-yield bond strategies. However, we started witnessing some upward trends in bond yields in 2017, especially at the front end of the curve. Furthermore, credit spreads have continued to compress both for investment grade and high yield to the point that they have become very tight by historical standards. An environment dominated by rising yields and tight credit spreads does not bode well for healthy absolute returns in bond portfolios. This will be a challenging environment for many strategies that have performed well over the last 20 to 30 years. We expect that some of our newer strategies will fare better in this environment, but investors will have to learn to accept lower returns from their bond portfolios going forward.

### *Balanced*

Balanced or multi-asset class strategies have historically been a relatively small component of our AUM, but have witnessed increased momentum over the past few years. Investors have started recognizing Guardian's ability to customize balanced funds, by selecting strategies from its wide range of Canadian and foreign equity solutions, combined with a solid fixed-income offering. In 2015, we refined our tactical asset allocation capabilities and combined them with our full suite of mutual funds, resulting in a comprehensive retail offering. Performance since inception of these strategies has been strong. These are distributed as standalone portfolios as well as under an insurance umbrella, in the form of sub-advised segregated funds. The retail industry has witnessed a strong trend toward multi-asset solutions in recent years and we believe our offering is very competitive in that space.

### *Real Estate*

In recent years, Guardian has created a new line of business, direct investment in real estate properties. Guardian Capital Real Estate Inc. ("GCREI"), our real estate subsidiary, currently manages one fund, the Guardian Capital Real Estate Fund LP, which is primarily intended to focus on yield-generating real estate assets for institutional and private investors. To date, the fund has raised just over $148 million of capital commitments from investors. The intent of the fund is to provide gross yields between 6% and 8% by investing in well-located, functional assets below

their replacement cost with rents at or below market. While GCREI currently does not meaningfully contribute to Guardian's results, it is an important asset class for our clients, and with the time invested to build a successful track record of efficient deployment of existing committed capital generating a strong track record will allow us to continue growing our AUM for this asset class.

### *Investment Client Distribution*

The composition of our client base remains broadly diversified, with approximately 50% of assets from institutional, corporate and pension accounts, and 50% from retail intermediary clients. Retail intermediary includes sub-advisory relationships with mutual funds and exchange traded funds, and a leading position in the separately-managed account (SMA) and unified managed account (UMA) wrap programs with the top broker-dealers in the country. Despite various headwinds, including soft near-term performance in a number of our marquee strategies, we finished the year with in excess of $11 billion in AUM between SMA/UMA and sub-advisory business in this channel. Guardian's expansion of its distribution into the US market has also begun to pay off, with some early successes in gathering new assets through our largest national broker-dealer partner in that market.

Many of our existing broker-dealer partners, in particular the big six Canadian banks, who sees us as a preferred provider of core investment solutions on their managed account platforms, are now also embracing the newer capabilities found within the larger Guardian Group of companies. Further consolidation in Canada is increasing the distribution power of these platforms as they build products and advisory that carry multi-generational appeal. Guardian is recognized and valued as an independent wholesaler of diversified investment solutions that deliver consistent returns, strong investment team continuity, and excellence in servicing the advisors in these large broker-dealer distribution channels. This positions us well to grow with our partners as they continue to develop their fast-expanding managed fee-based programs.

The challenges of doing business in the institutional markets persist for Guardian as demand trends continue to favour private market strategies such as private equity and debt, and infrastructure, where Guardian is not active. There has also been a pick up in the incidence of pension plans de-risking to mitigate the likelihood of mismatch between their invested assets and pension liabilities. This is double edged for Guardian as, on the one part, we have experienced clients reducing their Canadian equity positions to fund larger allocations to fixed-income. On the other part, we are a beneficiary of the trend as Guardian's fixed income team has developed a robust capability in Liability-Driven Investing (LDI) solutions, the typical destination for these reallocated assets. Despite this we did experience some net outflow of assets from Canadian equities in 2017.

We remain committed to serving the institutional investor markets and their consultants. The evolution of Guardian, whereby we have added to our traditional strengths and concentrations in Canadian equities and fixed income with an increasing array of international and global capabilities, both, systematically invested and, with GuardCap, fundamentally driven, positions us well for the future, both now and longer term. There continues to be demand for skilled management, be it to replace an underperforming Canadian equity manager or to help a pension plan to de-risk through LDI. Beyond this the demand for global equities continues unabated, at a time when our broad suite of skills in this area will increasingly be a competitive advantage. The recent addition of Alta Capital Management to the Guardian Group of companies only serves to enhance our story. Alta's strong long-term performance record in U.S. equities will complement those of our concentrated fundamental equity strategies offered by GuardCap. These capabilities, taken together, will enhance our profile as a leading manager of high conviction, higher-concentration active equity strategies covering the world's major markets.

## PRIVATE WEALTH MANAGEMENT

Guardian Capital Advisors LP ("GCA") provides wealth management services to high net worth families, foundations and charities, primarily in Canada. As the trusted advisor to our private clients, we manage discretionary portfolios consistent with their investment goals and objectives. Our risk-based approach, combined with Guardian's institutional research in domestic and global investments, allows us to build well-structured and globally diversified client portfolios. Guardian's continuing focus on expansion in U.S., international and emerging markets strategies, provide our clients with a distinct advantage over domestically-focused competitors. Our collaborative work with our clients' financial, legal, accounting, insurance and other advisors, ensures a holistic and integrated approach to wealth management. With twelve seasoned client portfolio managers along with a strong administrative and support team, service and partnership with our clients remain at the forefront.

Growth in our AUM from strong domestic and global equity markets and organic contributions in 2017 was partially offset by withdrawals by certain clients for significant estate and tax planning purposes. AUM at December 31, 2017 was $2.9 billion, compared to $2.8 billion at the end of 2016. Our business development efforts continue to focus on promoting awareness in the professional, and financial advisory communities. Additionally marketing and business development efforts have begun with cultural communities, private foundations and charities. To support our increased business development efforts, and to prepare the business for the next phase of growth, during the year, we strengthened the depth of our client portfolio management team with new hires across our offices.

## INTERNATIONAL PRIVATE BANKING

As an extension of our Private Wealth Management business, our International Private Banking division services the wealth management needs of our international clients.

Alexandria Bancorp Limited ("ABL") is a private bank based in the Cayman Islands established in 1990. ABL is licensed and regulated by the Cayman Islands Monetary Authority to provide investment, fiduciary and banking services to international clients. ABL offers investment management capabilities through the Alexandria Fund and a segregated account platform.

Alexandria Trust Corporation ("ATC") is a licensed and regulated trust company based in Barbados, which provides domestic and international fiduciary and corporate administration services.

In 2017, we invested back into the business, in the areas of technology and our regulatory and governance infrastructure, to better prepare ourselves for future growth in an increasingly regulated environment. Our capital adequacy is well above regulatory minimums, which continues to be a significant advantage to retain and attract banking clients.

## FINANCIAL ADVISORY

Worldsource Wealth Management Inc. ("Worldsource") is an integrated financial advisory platform, with independent financial advisors offering mutual funds, securities and life insurance products to Canadians from coast to coast. Worldsource operates two businesses within the Financial Advisory Segment. The insurance advisory services are provided through IDC Worldsource Insurance Network Inc. ("IDCWIN"), a leading national insurance Managing General Agency ("MGA"), which is 79.7% owned by Worldsource and provides sales, marketing and administrative support to licensed insurance advisors. The financial planning and investment advisory services are provided through Worldsource Financial Management Inc., a mutual fund dealer, and Worldsource Securities Inc., a securities dealer (together the "Dealers"). Worldsource promotes an open architecture, and thus provides advisors with the independence to choose the best available solutions for their clients. The advisors are further supported with quality reporting and administration, and a professional approach to sales compliance and product suitability.

The Financial Advisory Segment had another successful year in 2017, with historic highs in many metrics. Total assets under administration ("AUA") in Worldsource were $17.8 billion at December 31, 2017, compared to $16.5 billion at the end of 2016. The total commission revenues in 2017 were $43.5 million and operating earnings were $14.6 million, compared to $39.2 million and $11.0 million, respectively, in 2016.

In IDCWIN, the segregated fund and accumulation annuity AUA increased 9% to $4.9 billion as at December 31, 2017, compared to $4.5 billion at the end of 2016. However, the annual premiums on insurance policies sold ("Premiums Sold") reduced in 2017 to $77 million from $90 million in 2016. The reduction was caused by the unusually high volumes in 2016, driven above historic levels by advisors and clients placing an increased volume of policies before new income tax legislations came into effect in 2017. Despite this reduction, Premiums Sold in 2017 were still 37% above 2015 levels of $56 million. IDC WIN grew its net commission revenue in 2017 by 13.5% to $28.6 million from $25.2 million in 2016. Included in the 2017 net commission revenue are annual service commissions of $11.4 million, an increase of 16.3% from $9.8 million in 2016, which are earned in the years following the initial sales of life insurance policies. The growth in 2017 net commission revenue was also strengthened by the contributions from new advisors added through our successful recruitment program. IDCWIN continues to be a destination of choice for top-producing advisors. IDCWIN also made investments into sources of future growth, by expanding into the province of Quebec and into a new line of business, group benefits. The revenues from these areas are at modest levels today, but we expect they will become more meaningful in the future.

The Dealers also completed another successful year in 2017, ending the year with $12.9 billion in AUA, a 7.5% increase from $12.0 billion in 2016. The increases in AUA and the associated increase in net commission revenue were attributable to organic sales and investment market growth. The Dealers spent much of 2017 preparing for a technology platform upgrade, of which the initial phase was completed in early 2018, with the second phase expected to be completed in the second half of 2018. This project is strategically important as the new platform is expected to provide improved operational effectiveness and efficiencies and provide a stronger platform for our future growth. Once the conversion is completed, we expect to increase our focus on the growth of the business through advisor recruitment. Guardian continued to work closely with the Dealers in 2017, resulting in an increase of AUA placed in Guardian investment solutions to $663 million at year end, from $564 million at the end of 2016, an increase of 17.6%. While Guardian's Private Wealth business continues to hold the bulk of these assets, AUA in Guardian mutual funds and separately managed account mandates now surpass $100 million for the first time.

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited ("Guardian") pertains to the year ended December 31, 2017, with comparatives for the year ended December 31, 2016. Readers are encouraged to refer to Guardian's Consolidated Financial Statements contained in the 2017 Annual Report. This discussion and analysis has been prepared as of February 22, 2018.

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 these 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 from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements.

## OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer, and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered in Canada and operates in Canada, the United Kingdom ("UK"), the United States ("US") and the Caribbean. As at December 31, 2017, Guardian had $27.3 billion of assets under management ("AUM") and $17.8 billion of assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which, together with its investment in Bank of Montreal ("BMO") shares, had a fair value of approximately $652 million at the end of the year. On January 2, 2018, Guardian increased its presence in the US by closing a transaction to acquire 70% of Alta Capital Management, LLC, ("Alta") a Salt Lake City, Utah-based investment management firm. As at closing Alta, managed $3.3 billion USD in client assets.

## NON-IFRS MEASURES

Guardian uses certain measures to evaluate and assess the performance of its business, which are not defined within International Financial Reporting Standards ("IFRS"). These measures are EBITDA, EBITDA per share, adjusted cash flow from operations, adjusted cash flow from operations per share, equity per share, and securities per share. Non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. However, Guardian believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these measures in analyzing Guardian's results. On page 22 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

## 2017 HIGHLIGHTS

In 2017, Guardian continued to carry out its strategic plan, leveraging the investments made in 2016. We focused on growing our non-domestic AUM to diversify our revenue sources in the Investment Management Segment. We increased our marketing efforts in the non-North American markets and started to see some consistent flows into the Global Equities UCITS fund in the latter half of the year. Although the flows are still modest, we expect steady flows of new assets to continue in 2018 as the strategy has delivered stellar performance in calendar year 2017 and since inception of the strategy at Guardian commencing in 2014. In North America, we focused on marketing non-domestic strategies, largely the Global Dividend strategy, in the US market, utilizing the US retail intermediary distribution team created in 2016. Despite growth-biased strategies being more in demand by investors during the recent market trends we still managed to generate net assets inflows for our income-biased strategies.

Guardian's total AUM as at December 31 2017, was $27.3 billion, the same as at December 31, 2016. The positive market performance overall was offset by the outflow of assets from our clients. The outflows of assets were largely due to two influences. Firstly, certain institutional clients rebalanced their Canadian equity exposures downward, after a strong positive market performance in 2016. This is consistent with our experience in prior periods, after strong market performances. During this period, one co-advised mutual fund client restructured their funds and internalized the investment management function, becoming the only lost client of any significant size. Secondly, within the mutual funds and wrap broker dealer platforms we sub-advise, many retail investors initiated greater degree of redemptions from Canadian equities.

On November 20, 2017, Guardian entered into an agreement to acquire 70% of Alta Capital Management, LLC ("Alta"), a Salt Lake City, Utah investment management firm, for a purchase price of $45 million USD on closing, with additional contingent amounts of up to $10 million USD payable over 4 years from closing. The transaction closed on January 2, 2018, adding approximately $3.3 billion USD in AUM on that date. The acquisition was funded by increased borrowing by $45 million USD. This acquisition aligns well with our strategic plan to expand into the US market, and to diversify our revenue sources from the current Canadian equity concentration. The acquisition increased our non-domestic AUM to 28% of total institutional AUM from 16% as at January 2, 2018, added new US high conviction equities strategies to our product offering and enhances our ability to market existing Guardian products through Alta's established US distribution network. We are excited by the new opportunities for future growth in this market.

In the Financial Advisory Segment, we experienced tremendous growth in both businesses. The Dealers business delivered strong growth in operating earnings, benefiting from the growth in AUA from positive market performance, while focusing much of management time on preparing for technology platform upgrade. The first phase of the upgrade was completed in early 2018, with the second and final phase expected to be completed later in 2018. We expect this strategically important platform upgrade to better position us to serve the needs of our advisors and grow through recruitment of new advisors. The MGA business delivered another historic high in operating earnings in 2017. This is significant considering our sales volumes came down to more historic levels after the unusually high sales volumes we witnessed in 2016, driven by the changes to tax legislation which came into effect on January 1, 2017. The growth in operating earnings were further strengthened by contributions resulting from our continued successes in recruiting top advisors to our MGA.

In the Corporate Activities and Investments Segment, in addition to the time spent on the acquisition of Alta, we continued to manage our security portfolio. During the year we reduced our exposure to BMO by selling 300,000 shares. The proceeds were used to further diversify our securities portfolio, including additional allocation to proprietary funds and partially fund share buybacks completed during the year. Guardian continued to return cash flows to shareholders in 2017, with $26.3 million in share buybacks and dividends.

## CONSOLIDATED FINANCIAL RESULTS

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

| For the years ended December 31 ($ in thousands, except per share amounts) | 2017 | 2016 | % change |
|---|---|---|---|
| Net revenue | $ 151,238 | $ 142,686 | 6% |
| Expenses | 103,069 | 98,019 | 5% |
| Operating earnings | 48,169 | 44,667 | 8% |
| Net gains | 62,534 | 38,617 | 62% |
| Earnings before income taxes | 110,703 | 83,284 | 33% |
| Income tax expense | 15,516 | 12,709 | 22% |
| Net earnings | $ 95,187 | $ 70,575 | 35% |
| Available to shareholders | | | |
| Net earnings | $ 93,692 | $ 69,475 | 35% |
| EBITDA | 52,754 | 49,549 | 6% |
| Adjusted cash flow from operations | 41,313 | 38,659 | 7% |
| Available to shareholders, per share, diluted | | | |
| Net earnings | $ 3.19 | $ 2.32 | 38% |
| EBITDA | 1.80 | 1.66 | 8% |
| Adjusted cash flow from operations | 1.41 | 1.30 | 8% |

| As at December 31 ($ in millions, except per share amounts) | | 2017 | | 2016 | % change |
|---|---|---|---|---|---|
| Shareholders' equity | | **634** | | 580 | 9% |
| Securities | | **652** | | 620 | 5% |
| Per share, diluted | | | | | |
| Shareholders' equity | **$** | **21.88** | $ | 19.62 | 11% |
| Securities | | **22.49** | | 20.97 | 7% |

| For the years ended December 31 ($ in millions) | | 2017 | | 2016 | % change |
|---|---|---|---|---|---|
| Annual premiums on insurance policies sold | **$** | **77** | $ | 90 | -14% |

Guardian's operating earnings in 2017 were $48.2 million, compared to $44.7 million in 2016, an 8% increase. Guardian benefited from its diversified revenue and earnings sources, where the Financial Advisory Segment provided the biggest increase in our operating earnings.

The operating earnings from the Investment Management segment were $20.4 million in 2017, a slight increase from $20.2 million in 2016. The increased net management fees earned on higher average AUM during the current year were offset by the increased expenses, largely related to the US distribution team which was formed in July 2016. While dealing with significant headwinds associated with clients rebalancing their Canadian equities allocations, the domestic investment management operations still delivered positive operating earnings growth, along with the Private Wealth business increasing their earnings and the UK operations reducing their operating losses. These positive contributions were offset, largely by the reduced operating earnings from our International Private Banking operations, which earned lower banking transaction fees in the current year, compared to 2016 when the transaction fees were significantly above historic levels.

The Financial Advisory Segment, both the MGA and the Dealer businesses combined to deliver another historic high in operating earnings with $14.6 million in 2017, compared to $11.0 million in 2016, a 33% increase. The Dealer business was aided by the growth in AUA, which increased its revenues in excess of its increased expenses related to the technology platform upgrade. The MGA business benefited from its growth in annual service commissions, which are earned on renewed life insurance policies sold in prior years. It also generated the same level of sales commissions compared to the prior year when historic levels of life insurance sales were achieved. Higher margin products sold and the benefits of successful advisor recruitments helped maintain the same level of sales commissions.

The Corporate Activities and Investments Segment earned $13.2 million in operating earnings, compared to $13.5 million in 2016. The growth in operating earnings contributions from the security portfolio and the consolidated funds were offset by $0.6 million in costs associated with the Alta acquisition in this segment.

The net gains in 2017 were $62.5 million, compared to $38.6 million in 2016. The largest contributor to the increase was the gains recognized on change in fair value of held for trading securities invested within the consolidated funds. On the back of a significant positive performance of the global markets, the funds recognized $38.9 million in net gains in the current year, compared to $13.1 million in 2016.

Higher income tax expense in 2017 was the result of higher operating earnings and higher net gains realized during the year, compared to 2016.

Net earnings available to shareholders for 2017 were $93.7 million, compared to $69.5 million in 2016, a 35% increase. The increase was the result of improved operating earnings and the significant increase in net gains in 2017.

EBITDA for 2017 was $52.8 million, compared to $49.5 million in 2016, a 6% increase. Adjusted cash flow from operations for the year amounted to $41.3 million, compared to $38.7 million in 2016, a 7% increase. The increases in both measures are due to improved operating results compared to 2016.

The per share amounts in net earnings, EBITDA, and adjusted cash flow from operations, increased as a result of the continued improvements in operations, and the benefits of the repurchase of 0.6 million shares in 2017.

The following is a summary of Guardian's assets under management and assets under administration:

| Years ended December 31 ($ in millions) | | 2017 | | 2016 |
|---|---|---|---|---|
| Assets under management, beginning of year | **$** | **27,280** | $ | 24,278 |
| Net additions (reductions) from clients during year | | **(1,780)** | | 282 |
| Market appreciation | | **1,750** | | 2,720 |
| Assets under management, end of year | **$** | **27,250** | $ | 27,280 |
| Comprised of: | | | | |
| Institutional | **$** | **24,279** | $ | 24,380 |
| Private wealth and international private banking | | **2,971** | | 2,900 |
| Total | **$** | **27,250** | $ | 27,280 |
| Institutional AUM is comprised of: | | | | |
| Canadian equities | **$** | **12,246** | $ | 13,294 |
| Global equities | | **3,887** | | 3,306 |
| Fixed Income | | **8,146** | | 7,780 |
| Total institutional AUM | **$** | **24,279** | $ | 24,380 |
| Assets Under Administration | **$** | **17,795** | $ | 16,489 |

## REVENUES AND EXPENSES

### *Investment Management Revenues*

The largest source of revenue at Guardian is management fees received from clients, which vary as a result of changes in the amounts of client assets managed, and variations in the rates of management fees charged.

Guardian's total AUM were $27.3 billion at December 31, 2017, unchanged from the end of the prior year. As described in the 2017 Highlights section above, the positive market performance in the equity markets were offset by the outflow of assets, as clients reduced their allocation to Canadian equities in our institutional investment management businesses. In the Private Wealth business, a large client redeemed a portion of their accounts for estate planning purposes, which largely offset the increase in AUM from other net inflows and positive market performance.

Management fees, net of referral fees paid, for the year 2017 were $71.8 million, 5% higher than the $68.2 million for 2016. Institutional management fees increased 5% to $54.9 million in 2017 from $52.4 million in 2016, as a result of higher average AUM in 2017. Private Wealth and International Private Banking management fees, net of referral fees paid, increased 7% during the year to $16.9 million from $15.8 million in 2016, reflecting the increase in average AUM in this business.

### *Financial Advisory Commission Revenues*

Net commission revenue earned from the Financial Advisory Segment is generated from the sale of life insurance products, mutual funds and other securities, as well as from continuing trailer and servicing commissions related to AUA and in-force life insurance policies, net of commissions paid to advisors.

Total AUA at Guardian at the end of 2017 amounted to $17.8 billion, 8% higher than the $16.5 billion at the end of 2016. The increase in AUA was due to successful recruitment efforts, net new sales, and market performance during the year.

The Annual Premiums on Life Insurance Policies Sold ("Premiums Sold") in 2017 by the MGA subsidiary were $76.8 million, compared to $90.4 million in 2016, when tax changes drove the sales volumes to historic levels. Although the Premiums Sold were lower in 2017, the sales commissions earned were the same as in 2016 due to higher margin being earned in the current year.

Net commission revenue from the Financial Advisory Segment amounted to $42.0 million in 2017, 9% higher than the $38.4 million in 2016. The Dealer net commission revenue increased to $13.4 million from $13.2 million in 2016. The increase was largely the result of higher average AUA in the Dealer business. The MGA net commission revenue increased to $28.6 million from $25.2 million in 2016. The increase was due largely to the increase in continuing service commission revenue, resulting from prior year's Premiums Sold and increases in trailer and sales commissions related to segregated funds and other products. Included in the MGA net commission revenue were $11.4 million in service commissions, an increase of $1.6 million from 2016.

### *Administrative Services Income*

Administrative services income in 2017 was comprised of $8.3 million of registered plan and other fees earned in the Financial Advisory Segment, $6.0 million in fund administration, trust, corporate administration and other fees earned in the Investment Management Segment, for a total of $14.3 million, compared with $14.6 million in 2016. The decrease is due to lower banking transaction fees earned in the International Private Banking business.

### *Dividend and Interest Income*

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

| For the years ended December 31 ($ in thousands) | 2017 | 2016 |
|---|---|---|
| Dividend on Bank of Montreal shares | $ 13,792 | $ 14,442 |
| Other dividends | 7,585 | 5,383 |
| Dividend income | 21,377 | 19,825 |
| Interest income | 1,705 | 1,706 |
| Total dividend and interest income | $ 23,082 | $ 21,531 |

Dividend and interest income increased to $23.1 million in 2017, a 7% increase from the prior year. The increase is due largely to the increased dividend income recognized in the consolidated investment funds which have grown over the year, offset slightly by the decrease in dividends earned from the BMO shares.

Consistent with our strategic plan, Guardian sold 300,000 shares of BMO in 2017, to continue to diversify its concentration in BMO shares when opportunity arises. The reduction in the number of BMO shares held resulted in lower BMO dividends earned, offset slightly by the increase in dividend rates compared to the prior year.

Due to the success in marketing the Global Equities UCITS fund and the resulting inflow of client assets during 2017, the fund is no longer deemed to be controlled by Guardian and was deconsolidated at the end of 2017. As a result in the future, the dividend income from our investment in this fund will no longer be recorded in our operating earnings but recorded in net gains. The revenue and operating earnings contribution from this fund in 2017 were $3.5 million and $2.0 million, respectively.

### *Expenses*

Guardian's operating expenses, excluding commissions paid and referral fees, were $103.1 million in 2017, compared with $98.0 million in 2016, an increase of 5%. The increase in expenses is largely related to expenditures to support the strategic investments in the business, some of which were initiated in 2016. The increase in employee compensation and benefits related to: the full year effect of the cost of US distribution team hired in mid-2016; the additional UK investment professionals hired, in mid-2016; and the hires in the Financial Advisory Segment to support the growth in the MGA business. The increase in other expenses are due to: increased marketing efforts related to our investment strategies in various non-domestic markets; increased fund administration costs due to growth in both our proprietary funds and those funds which are consolidated; one-time costs associated with the Alta acquisition, and non-capitalized cost associated with our technology platform conversion in our Financial Advisory Segment.

## NET GAINS

| For the years ended December 31 ($ in thousands) | 2017 | 2016 |
|---|---|---|
| Net gains in consolidated investment funds | $ 38,828 | $ 13,080 |
| Net gains on securities directly held | 22,325 | 25,161 |
| Net gains on securities | 61,153 | 38,241 |
| Net foreign exchange gains (losses) | 541 | (644) |
| Net gains on disposal of intangible assets | 840 | 1,020 |
| Net gains | $ 62,534 | $ 38,617 |

The large increase in net gains in 2017 compared to 2016 was due largely to the increased gains recognized within the consolidated funds. The most significant increase in net gains was recognized within the Global Equity UCITS fund which generated significant, positive performance in 2017.

In addition, Guardian disposed of 300,000 shares of BMO in 2017, recognizing $19.0 million in net gains, compared to $24.0 million recognized in 2016 on the sale of 531,120 shares of BMO.

## 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 the appropriate levels of working capital in each of its areas of operation, make the necessary capital expenditures to develop and support its businesses and make appropriate use of borrowings, including financing the expansion of its businesses. The hallmark of Guardian's balance sheet is the significant liquid marketable securities portfolio as presented below.

| As at December 31 ($ in thousands, except per share amounts) | 2017 | 2016 |
|---|---|---|
| Securities | | |
| Proprietary investment strategies | | |
| Short-term securities | $ 9,810 | $ 12,567 |
| Fixed-income securities | 19,328 | 10,484 |
| Canadian equities | 21,819 | 13,507 |
| Global equities | 203,474 | 161,153 |
| Real estate | 13,545 | 23,759 |
| | 267,976 | 221,470 |
| Bank of Montreal common shares | 372,146 | 386,240 |
| Other securities | 12,054 | 12,508 |
| Securities | $ 652,176 | $ 620,218 |
| Total securities per share, diluted | $ 22.49 | $ 20.97 |

Guardian's securities as at December 31, 2017 had a fair value of $652 million, or $22.49 per share, diluted, compared with $620 million, or $20.97 per share, diluted, as at December 31, 2016, as shown above. Reflecting this value, Guardian's shareholders' equity as at December 31, 2017 amounted to $631 million, or $21.75 per share, diluted, compared to $580 million, or $19.62 per share, diluted, as at December 31, 2016. During the current year, 300,000 shares of BMO were sold for total proceeds of $29.9 million.

In 2017, Guardian negotiated increases to certain of its borrowing facilities so that it now has available under various borrowing arrangements, total credit of $157 million. At December 31, 2017, the total bank borrowing amounted to $55.9 million, compared with $62.7 million at December 31, 2016.

On January 2, 2018, Guardian closed its acquisition of 70% interest in Alta and paid $45 million USD on closing. The purchase price was funded by borrowing $45 million USD under its credit facilities.

Guardian generated adjusted cash flow from operations of $41.3 million in 2017, an increase of $2.6 million from $38.7 million in 2016. At current levels of cash flow and anticipated dividend payout rates, Guardian generates sufficient cash flow to meet its operating obligations, necessary capital expenditures, dividend payments and share buybacks.

In 2017, using its strong balance sheet and cash flow, Guardian returned $26.3 million to the shareholders in the form of dividends and share repurchases, made $4.2 million in net capital expenditures to support the business and reduced bank loans and borrowings by $6.8 million.

## CONTRACTUAL OBLIGATIONS

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

| As at December 31, 2017 ($ in thousands) | Total | Within one year | One to three years | Three to five years | After five years |
|---|---|---|---|---|---|
| Bank loans and borrowings | $ 55,859 | $ 55,859 | $ – | $ – | $ – |
| Third party investor liabilities | 5,688 | 5,688 | – | – | – |
| Client deposits | 52,653 | 52,653 | – | – | – |
| Accounts payable and other liabilities | 42,344 | 42,344 | – | – | – |
| Payable to clients | 63,366 | 63,366 | – | – | – |
| Investment commitment – real estate fund | 22,484 | 22,484 | – | – | – |
| Operating lease obligations | 16,483 | 2,042 | 4,345 | 4,381 | 5,715 |
| Total contractual obligations | $ 258,877 | $ 244,436 | $ 4,345 | $ 4,381 | $ 5,715 |

Not included in the above table is the $45 million USD paid on January 2, 2018 on closing of the Alta acquisition, plus the additional contingent payment of up to $10 million USD due over the next four years from closing. Guardian's contractual obligations are supported by its strong financial position, including its securities, referred to above under

"Liquidity and Capital Resources". Client deposits, in the offshore banking subsidiary, are supported by interest-bearing deposits with banks. The third party investor liabilities are offset by securities backing third party investor liabilities. 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. Guardian's commitment to further invest into a real estate limited partnership managed by a subsidiary was $22.5 million, as at December 31, 2017. This balance is expected to be invested as appropriate real estate product becomes available to the limited partnership, at which time Guardian's management will decide on the appropriate strategy for funding this commitment.

## SELECTED ANNUAL INFORMATION

| Years ended December 31 ($ in thousands, except per share amounts) | **2017** | 2016 | 2015 |
|---|---|---|---|
| Net revenue | **$ 151,238** | $ 142,686 | $ 132,911 |
| Net earnings available to shareholders | **93,692** | 69,475 | 44,105 |
| Per share | | | |
| Net earnings available to shareholders | | | |
| Basic | **$ 3.37** | $ 2.44 | $ 1.50 |
| Diluted | **3.19** | 2.32 | 1.44 |
| Dividends paid | **0.385** | 0.33 | 0.29 |

| As at December 31 | **2017** | 2016 | 2015 |
|---|---|---|---|
| Total assets | **$ 912,484** | $ 982,262 | $ 810,249 |

Decrease in total assets in 2017, compared to 2016 was due to the reduction in Securities backing third party investor liabilities amounts, resulting from the deconsolidation of an investment fund in the current year. Increase in total assets in 2016, compared to 2015 was due to the increase in the fair value of Securities and the Securities backing third party investor liabilities.

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes Guardian's financial results for the past eight quarters.

| Quarters ended ($ in thousands) | **2017** | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Dec 31** | **Sept 30** | **Jun 30** | **Mar 31** | Dec 31 | Sept 30 | Jun 30 | Mar 31 |
| Assets under management | **$ 27,250** | **$ 26,335** | **$ 26,379** | **$ 26,967** | $ 27,280 | $ 27,269 | $ 25,654 | $ 24,816 |
| Assets under administration | **17,795** | **17,271** | **17,073** | **16,958** | 16,489 | 16,134 | 15,425 | 14,987 |
| Net revenue | **39,097** | **36,315** | **37,208** | **38,618** | 38,240 | 35,185 | 34,191 | 35,070 |
| Operating earnings | **13,046** | **10,505** | **12,160** | **12,458** | 12,371 | 10,646 | 10,300 | 11,350 |
| Net gains (losses) | **23,175** | **10,987** | **10,783** | **17,589** | 10,754 | 10,057 | 1,028 | 16,778 |
| Net earnings | **31,799** | **18,232** | **19,638** | **25,518** | 19,859 | 17,475 | 9,169 | 24,072 |
| Net earnings available to shareholders | **31,315** | **17,987** | **19,387** | **25,003** | 19,417 | 17,353 | 8,887 | 23,818 |
| Shareholders' equity | **634,416** | **608,013** | **603,428** | **605,039** | 580,177 | 545,339 | 513,939 | 497,656 |
| Per Class A and Common share (in $) | | | | | | | | |
| Net earnings available to shareholders | | | | | | | | |
| Basic | **$ 1.13** | **$ 0.65** | **$ 0.70** | **$ 0.91** | $ 0.69 | $ 0.61 | $ 0.31 | $ 0.83 |
| Diluted | **1.07** | **0.61** | **0.67** | **0.86** | 0.65 | 0.58 | 0.30 | 0.79 |
| Shareholders' equity (1) | | | | | | | | |
| Basic | **$ 23.20** | **$ 21.87** | **$ 21.75** | **$ 21.81** | $ 20.75 | $ 19.11 | $ 18.08 | $ 17.51 |
| Diluted | **21.88** | **20.67** | **20.54** | **20.58** | 19.62 | 18.07 | 17.10 | 16.63 |
| Dividends paid | **$ 0.100** | **$ 0.100** | **$ 0.100** | **$ 0.085** | $ 0.085 | $ 0.085 | $ 0.085 | $ 0.075 |

Over the past 8 quarters presented above, Guardian's net revenue and operating earnings have generally shown an upward trend, although they have fluctuated from time to time. These fluctuations have largely been driven by fluctuations in revenues which are influenced by factors described below.

Management fees earned in the Investment Management Segment and trailer commissions earned on mutual funds and segregated funds in the Financial Advisory segment are highly correlated to the change in AUM and AUA. The growth in the significance of insurance commissions, as the MGA business continued to grow, has dampened the correlation between the fluctuations in net revenues and the financial markets, as these revenues are less influenced by the volatility of those financial markets. Some seasonality in the commission revenues occurs in the MGA business, where the last quarter of the year could result in increased revenues from "volume bonuses" earned from the life insurance companies. The seasonality which in the past existed in the Dealer business, with some concentration of commissions in the traditional "RSP season" in the first quarter of each year, has now become less significant. This change is due to the continuing move away from sales commissions and toward "trailer" commissions, which are on-going commissions based on average AUA during each period, and the increasing significance of commissions from the life insurance MGA. In the Corporate Investing and Activities Segment, some fluctuations in dividend income can be seen in the second quarter and to a lesser extent, in the fourth quarter of each year, due largely to dividends from foreign equities which pay semi-annual dividends and some "special" dividends mid-year during those periods.

In addition to the various influences described above, the net revenue in the fourth quarter of 2016 and the first quarter of 2017 were also affected by significant increases in sales of life insurance policies, driven by changes to income tax legislation that came into effect at the beginning of 2017. Since gains and losses are recorded on disposal of available for sale securities or other assets, on changes in the value of held for trading and held for sale securities, and on changes in the value of foreign currency balances held, and such amounts can vary from quarter to quarter, the amounts included in "Net gains" each quarter have fluctuated, as shown in the quarterly results above.

The quarterly fluctuations in shareholders' equity shown above have been caused largely by the changes in the value of Guardian's securities holdings, less the provision for deferred income taxes thereon.

## RISK FACTORS

Guardian applies many of the same risk management principles to its business as a whole, as it does to the management of risks on behalf of its clients. One of the principles is that risk can pose challenges, as well as provide opportunities, depending upon the effectiveness of the way in which it is managed. Readers are encouraged to refer to the notes to the Consolidated Financial Statements, contained in Guardian's 2017 Annual Report, for additional information on financial risk management.

### *Market Risk*

Market fluctuations can have a significant effect on the value of both clients' portfolios and our earnings, since significant part of our revenues, including management fees, are generally based on market values. Additionally, market fluctuations can impact the amounts being invested by the clients of our financial advisory businesses, increasing or reducing our commission revenues. We manage the risk of market fluctuations by having a diversified client base with different investment needs, and by having a variety of products and services, which may be attractive in different market environments and which have different correlations to equity and other financial markets and to each other. Guardian's securities are managed independently of clients' assets, except for those of our assets that are invested in Guardian's investment funds.

### *Portfolio Value and Concentration Risk*

Guardian's securities are subject to price fluctuation risk. 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. With the exception of the investment of $372 (2016 – $386) million in the Bank of Montreal shares, which represents 57% (December 31, 2016 – 62%) of Guardian's securities, they are diversified, from both an asset class and a geographical perspective. At the end of 2017, the securities were made up of 62% (2016 – 68%) Canadian equities, consisting mainly of the Bank of Montreal shares, 34% (2016 – 28%) non-Canadian equities and 4% (2016 – 4%) fixed income securities.

### *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, but are recorded as changes in the "foreign currency translation adjustment" in Guardian's Statements of Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. In addition, the operating results of these subsidiaries can fluctuate with the change in the foreign currency exchange rates against the Canadian dollars. These foreign currency exposures are not actively managed, due to the long-term nature of these investments, but are closely monitored by management. Foreign currency fluctuations can also affect Guardian earnings through its impact on the securities portfolio and AUM. As the Canadian dollar appreciates or depreciates in value against other currencies, the

value of the securities portfolio, the income earned from those securities, and the management fees earned on non-domestic AUM could fluctuate. From time to time, the foreign subsidiaries hold foreign cash currency balances which are different from Guardian or its subsidiaries' functional currencies, which can result in foreign exchange gains or losses being recorded by the subsidiaries.

### *Credit Risk*

Guardian's credit risk is generally considered to be low. Because of the nature of Guardian's business, its receivables are mainly from large institutions, which are considered to pose a relatively low credit risk, or from individuals, which are secured by marketable securities. Guardian periodically reviews the financial strength of all of its counterparties, and if the circumstances warrant it, Guardian takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in fixed-income mutual funds is managed by the monitoring of the activities of the portfolio managers who, through diversification and credit quality reviews of the funds' investments, manage the funds' credit risk. From time to time, advisors in the Financial Advisory segment may owe to the Dealer or the MGA, advances received or amounts resulting from reversal of commissions. 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, through matching the interest rates and maturity dates of client deposit liabilities with the assets, interest-bearing deposits with banks. The interest rate risk associated with Guardian's investment in fixed-income mutual funds is managed by monitoring the activities of the portfolio manager, who manages this risk by positioning the portfolio for various interest rate environments.

### *Liquidity Risk*

Guardian manages liquidity risk through the monitoring and managing of cash flows from operations by establishing sufficient borrowing facilities with major Canadian banks, which currently total $157 million through three credit facilities, and the support of its significant security portfolio. The maturities of Guardian's contractual commitments are outlined under "Contractual Commitments" in this discussion and analysis. The combination of the cash flows from operations, borrowing facilities and the holding of securities provides sufficient resources to manage its liquidity risk.

### *Regulatory Risk and Legal Risk*

Guardian and its subsidiaries operate in an environment subject to various laws and regulations. Given the nature of certain of Guardian's subsidiaries, they may, from time to time, be subject to 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.

### *Performance Risk*

Product performance presents another risk. It is a relative, as well as an absolute measure, because the risk is that we will not perform as well as the market, our peers, or in line with our clients' expectations. 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 ensure that we are fully aware of all of those expectations, and that we properly communicate with our clients to develop, report on and comply with client mandates on a continuous basis.

### *Financial Advisory Risk*

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

### *Competition Risk*

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

to invest in the development or acquisition of businesses. It also provides existing and future clients with comfort which allows Guardian to better compete in winning and retaining these clients.

### *Information Technology and Cybersecurity Risk*

Guardian uses information technology and the internet to streamline business operations and to improve client and advisor experience. However, with the use of information technology, including the use of mobile devices, and the use of internet, such as emails and other online capabilities, Guardian is exposed to information security and other technology disruptions risks that could potentially have an adverse impact on its business. Guardian actively monitors this risk and continues to develop controls to protect against such threats that are becoming more sophisticated and pervasive.

## 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 2017 Consolidated Financial Statements. The most significant accounting estimates are related to the impairment assessment of goodwill and the determination of fair value of securities classified as level 3 within the fair value hierarchy.

The impairment assessment of goodwill includes a comparison of the carrying value and the recoverable amount of each business unit to verify that the recoverable amount of the business unit is greater than its carrying value. In 2017 and 2016, the recoverable amounts were estimated using the fair value less cost to sell method for each of the business units. Guardian used valuation approaches to determine fair value based on a multiple of AUM, AUA, annual service fee revenues and first year's commissions. These multiples are developed by management based on recent transactions and research reports by independent research analysts. These valuation approaches are most sensitive to the levels of AUM, AUA and annual service fees.

A financial instrument is classified as level 3 when the fair value of the instrument is determined using valuation techniques based on inputs which are not observable in the market. The fair values of securities classified as level 3 in note 4(b) to Guardian's 2017 Consolidated Financial Statements were based on a valuation approach using a multiple of AUM and further corroborated by a multiple of EBITDA observed in market transactions. The multiple was developed based on prior tender offers and recent research reports by independent research analysts for similar types of business. This valuation approach is most sensitive to the level of AUM and the EBITDA generated by these entities.

## FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, and amendments to existing standards, have been issued by the International Accounting Standards Board ("IASB"), which are effective for Guardian's consolidated financial statements in future periods. Readers are encouraged to refer to note 2 to the Consolidated Financial Statements contained in Guardian's 2017 Annual Report, for Guardian's assessment of the potential impact of these new standards. Guardian continues to evaluate the impact these new standards will have on its consolidated financial statements. The following is a description of these new standards and amendments.

### *Financial Instruments*

On July 24, 2014, IASB issued its fourth and final version of IFRS 9 Financial Instruments ("IFRS 9"), which is to replace IAS 39 Financial Instruments: Recognition and Measurement with revised guidance on classification and measurement of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

### *Revenue*

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), which establishes a new framework for the recognition of revenue from contracts with customers and replaces several other standards and interpretations. The core principle of IFRS 15 is that an entity recognizes revenue upon the transfer of services to customers that reflects the payments to which it expects to be entitled. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

### *Leases*

On January 13, 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which is to replace IAS 17 Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

## NON-IFRS MEASURES

### *EBITDA and EBITDA per share*

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and any net gains or losses, less amounts attributable to non-controlling interests. EBITDA per share is calculated using the same average shares outstanding as are used in calculating net earnings available to shareholders per share. 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 distortion 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 this non-IFRS measure:

| For the years ended December 31 ($ in thousands) | 2017 | 2016 |
|---|---|---|
| Net earnings, as reported | $ 95,187 | $ 70,575 |
| Add (deduct): | | |
| Income tax expense | 15,516 | 12,709 |
| Net gains | (62,534) | (38,617) |
| Stock-based compensation | 1,988 | 1,731 |
| Interest expense | 814 | 837 |
| Amortization | 4,213 | 4,185 |
| Non-controlling interests | (2,430) | (1,871) |
| EBITDA | $ 52,754 | $ 49,549 |

### *Adjusted Cash Flow From Operations and Adjusted Cash Flow From Operations per share.*

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

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

| For the years ended December 31 ($ in thousands) | 2017 | 2016 |
|---|---|---|
| Net cash from operating activities, as reported | $ 44,638 | $ 42,515 |
| Add (deduct): | | |
| Net change in non-cash working capital items | (1,427) | (2,454) |
| Non-controlling interests | (1,898) | (1,402) |
| Adjusted cash flow from operations | $ 41,313 | $ 38,659 |

### *Shareholders' Equity per share*

Shareholders' equity per share, diluted, is used by management to indicate the retained value per share available to shareholders which is 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.

## INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROL

Management is responsible for establishing and maintaining adequate internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in Guardian's internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, Guardian's internal control over financial reporting.

Management of Guardian has evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting (as defined under National Instrument 52-109) as of December 31, 2017, under the supervision of the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the design and operation of those disclosure controls and procedures and internal controls over financial reporting were effective.

## OUTLOOK

2017 was a strong year for global economic growth, with near universal strengthening around the world. Purchasing Managers Index ("PMI") readings for the world's major economies strengthened throughout the year for both manufacturing and services, with nearly all indicating economic expansion. A similar trend was generally seen for most major economies in the rates of GDP growth (increasing), and a decline in unemployment. In 2017, a number of central banks began tightening rates and reducing monetary stimulus. Notably, the Fed implemented three 25 bps hikes to increase its benchmark interest rate from a target range of 0.5%-0.75% to a target range of 1.25%-1.5%, the Bank of England increased once by 25 bps, and the Bank of Canada increased twice by 25 bps to 1.0%. Most metrics for the Canadian economy outperformed expectations in 2017, indicating healthy momentum: the manufacturing PMI remained in the mid-50's throughout the year; GDP was strong in the first and second quarters at 3.7% and 4.5%, respectively, trailing off somewhat in the third quarter to 1.7%; and the unemployment rate steadily declined, from 6.9% at the end of 2016 to 5.7% at the end of 2017. While these signs were all positive, the renegotiation of NAFTA is a potential overhang on the Canadian economy heading into 2018, as is the high level of household debt-to-GDP (at 101.0% as of June 2017). In 2017, the S&P/TSX Composite generated a total return of 9.1%, while the S&P 500 returned 21.8%. (All figures are in local currencies). Globally, most major developed markets had a strong year in 2017, but lagged the performance of the U.S.; most notably emerging markets also were strong, performing as well or better than the S&P 500. We have been bullish since the 4th quarter of 2012, the underlying premise of our bullishness being that stocks were inexpensive relative to interest rates and would benefit from P/E multiple expansion, as the memory of the financial crisis faded into the background and investors recognized that the U.S. economy was healing. From this point forward, the dynamics behind our bullishness are changing toward some multiple expansion for low and medium-priced stocks, and earnings growth for the market in general. In early 2018, we have seen some increased market volatility and, as we go further into the calendar year, we will need to carefully monitor how quickly Central Banks raise rates and reduce their bond holdings (accumulated through quantitative easing). We are now in the first real period of tightening since the financial crisis; as a result, we will need to watch how bond yields behave, and how the shape of the yield curve responds to this tightening. We anticipate that the secure growth footing underlying the U.S. economy will help drive earnings in both the U.S. and Canada. Often at this stage of a cycle, with the Fed tightening into an expanding economy, earnings growth will continue to drive stocks even while interest rates are rising. This generally continues until long bond yields rise enough to begin to crimp valuations and the yield curve inverts, signaling pressure on earnings from a slowdown or recession to come. We continue to expect China to muddle its way through a soft-landing, maintaining growth of 6% to 6.5%, and then tapering off over the next few years. While we had anticipated that the uncertainty related to Brexit would cause the EU economies to slow, we do note that the economies in Europe are accelerating during this interim period in response to a long period of monetary ease finally having an effect. In summary, we believe that the world will continue to benefit from synchronized global growth, even if there are some challenges to be overcome.

Guardian has historically been highly levered to Canadian equities, across its main business segments as well as its corporate investment portfolio. While we have gradually been increasing exposure to other non-Canadian assets, our overall exposure to Canadian equities remains very high. For the last few years, Guardian has been focusing on increasing our investment management capabilities, both within Canada and throughout the world. With our acquisition of a 70% stake in Alta, we have added a high-quality team of US-focused investment professionals whose skill set and investment processes align with and compliment those of our Canada and UK based teams. Guardian will focus on cross marketing our existing product line, in particular our global capabilities, through Alta's distribution channels, and reciprocally, introducing Alta and their US investment expertise to our pre-existing channels. Alta generates very respectable levels of profitability, which we expect to benefit Guardian's bottom line in 2018. Another promising sign is that our UK-based global team is slowly gaining sales traction in their asset class, giving us hope and confidence that our non-Canadian investment capabilities will, over time, represent a more significant portion of our overall business.

Guardian's management will also continue to use its strong balance sheet to assist in our growth plans, by creating and seeding new strategies to gain a track record of performance and test our theories on optimizing our investment management processes. We have found that substantial investments in newly-offered products can help us to gain clients in the early stages of our product development. Two recent examples of this are in our Real Estate and our Global Fundamental Equity strategies, where substantial commitments of our own capital accelerated attracting third party investors. Investing in our own products also serves the purpose of slowly and methodically diversifying from our core holding of shares in the Bank of Montreal, as well as potentially diversifying from our large exposure to Canadian equities in general.

Another benefit of our balance sheet is to enable us to consider growth through acquisition opportunities. While much of our focus in 2018 will be on implementing our strategy with respect to Alta, we will continue to explore and evaluate opportunities in a range of investments related to financial service businesses.

Guardian's Financial Advisory subsidiary, Worldsource Wealth Management ("WWM"), continued to grow in 2017. Our patience in building Worldsource over several years, both through acquisition and internal growth, has resulted in its transformation from a collection of small, money losing operations, to a relatively large, profitable and valuable asset. Going forward, our plan is to continue to invest in increasing the scale of these businesses through recruitment of new advisors, as well as prudently considering acquisitions, if they become available. Guardian has made some strides in the past few years in creating and distributing market-competitive investment products that are attractive to our partners throughout WWM. Our longer-term plan for WWM includes continuing to improve our offering and increasing our assets under management administered by our partners at Worldsource. In order to remain competitive, Worldsource will need to continue to invest in improving its technology offering, which is becoming more and more critical to our efficiency and that of our advisors.

2017 was a relatively quiet year for recruitment and acquisitions at IDC WIN, our insurance Managing General Agency (MGA). However, we continued to see strong organic growth which led to new highs in profitability for the year. In 2018, we expect to continue to grow organically and through new advisor recruitment, and we will consider any opportunity to make potential acquisitions to increase the scale of our business.

Over the past several years, Guardian has had a great deal of success in growing and improving the profitability of its businesses in Canada. Going forward, while we feel that there are still opportunities to succeed in the Canadian investment management market, it is a much smaller growth opportunity for us. Our acquisition of Alta is another significant milestone for Guardian in our ongoing strategy to grow our capability to address larger portions of the global investment management business. In order to accelerate our growth in the long term, Guardian plans to continue to invest in our global investment management capabilities and, equally important, to continue to invest in expanding our distribution capabilities, in order to seek new clients in Canada, in the United States and worldwide. We believe that investing in distribution and continuing to diversify our offering will give Guardian an additional opportunity to grow over the longer term.

# Ten Year **Review**

| Notes (e) | | **2017** | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ in millions) | | | | | | | | | | | |
| Assets under management | | **$ 27,250** | $ 27,280 | $ 24,278 | $ 24,968 | $ 22,228 | $ 18,832 | $ 15,928 | $ 16,266 | $ 13,986 | $ 11,764 |
| Assets under administration | | **17,795** | 16,489 | 14,943 | 13,126 | 11,559 | 9,918 | 8,654 | 7,783 | 7,074 | 6,005 |
| ($ in thousands) | | | | | | | | | | | |
| Net revenue | | **$151,238** | $142,686 | $132,911 | $119,275 | $101,278 | $ 86,360 | $ 73,693 | $ 64,928 | $ 61,147 | $ 66,918 |
| Expenses [a] | | **103,069** | 98,019 | 89,913 | 81,134 | 74,347 | 66,222 | 56,560 | 51,389 | 52,419 | 58,665 |
| Operating earnings | | **48,169** | 44,667 | 42,998 | 38,141 | 26,931 | 20,138 | 17,133 | 13,539 | 8,728 | 8,253 |
| Net gains (losses) | | **62,534** | 38,617 | 11,040 | 6,700 | 11,637 | 1,337 | (131) | 2,982 | 1,217 | (4,484) |
| Net gains (losses) on securities held for sale | | **–** | – | – | 386 | (58) | 4,559 | (5,493) | 6,443 | – | – |
| Net earnings available to shareholders | | **93,692** | 69,475 | 44,105 | 37,017 | 34,432 | 22,556[d] | 10,003 | 23,015 | 14,274[b] | 7,299[c] |
| Shareholders' equity | | **634,416** | 580,177 | 504,255 | 488,835 | 414,985 | 353,756 | 322,618 | 331,856 | 317,784 | 204,051 |
| Securities | | **652,176** | 620,218 | 539,920 | 525,352 | 449,179 | 379,956 | 364,182 | 383,604 | 362,512 | 241,549 |
| (In dollars) | | | | | | | | | | | |
| Per common and Class A share: | | | | | | | | | | | |
| Net earnings available to Shareholders | | | | | | | | | | | |
| Basic | | **$ 3.37** | $ 2.44 | $ 1.50 | $ 1.23 | $ 1.13 | $ 0.72[d] | $ 0.31 | $ 0.70 | $ 0.41[b] | $ 0.19[c] |
| Diluted | | **3.19** | 2.32 | 1.44 | 1.19 | 1.11 | 0.71[d] | 0.31 | 0.69 | 0.41[b] | 0.19[c] |
| Shareholders' equity | | | | | | | | | | | |
| Basic | | **23.20** | 20.75 | 17.37 | 16.33 | 13.68 | 11.44 | 10.12 | 10.16 | 9.37 | 5.69 |
| Diluted | | **21.88** | 19.62 | 16.55 | 15.62 | 13.17 | 11.16 | 9.90 | 10.01 | 9.19 | 5.65 |
| Dividends paid | | **0.385** | 0.330 | 0.290 | 0.240 | 0.300 | 0.170 | 0.160 | 0.150 | 0.150 | 0.150 |
| Share prices: | | | | | | | | | | | |
| Common | high | **29.50** | 25.98 | 24.61 | 21.45 | 18.00 | 11.65 | 12.75 | 9.75 | 9.97 | 11.10 |
| | low | **23.41** | 16.20 | 16.55 | 15.30 | 11.50 | 9.41 | 9.49 | 7.90 | 4.65 | 4.26 |
| Class A | high | **29.00** | 25.10 | 19.25 | 18.85 | 16.82 | 10.55 | 11.63 | 9.00 | 8.25 | 11.02 |
| | low | **23.45** | 15.58 | 15.50 | 15.10 | 10.40 | 9.00 | 8.70 | 7.35 | 3.00 | 3.02 |
| (In thousands) | | | | | | | | | | | |
| Year end common and Class A shares outstanding | | | | | | | | | | | |
| Basic | | **27,345** | 27,963 | 29,029 | 29,940 | 30,333 | 30,917 | 31,890 | 32,652 | 33,932 | 35,874 |
| Diluted | | **29,001** | 29,576 | 30,472 | 31,300 | 31,510 | 31,696 | 32,604 | 33,162 | 34,563 | 36,104 |

NOTES

(a) Excluding commissions paid, referral fees and income taxes.

(b) Net earnings available to shareholders in 2009 reflect a reduction in future income taxes, resulting from the reduced income tax rates enacted during the year, of $2.0 million, ($0.06 per share diluted).

(c) Net earnings available to shareholders in 2008 reflect a $1.3 million ($0.03 per share) reduction in future income taxes, resulting from the reversal of future income taxes relating to Guardian's foreign subsidiaries, as well as the recording of restructuring costs of $2.3 million ($0.06 per share).

(d) Net earnings available to shareholders in 2012 reflect a $1.1 million ($0.03 per share) increase in future income taxes, resulting from increased income tax rates enacted during the year.

(e) Results in 2010 and subsequent years are in accordance with IFRS; 2009 and previous years are as reported under previous Canadian GAAP.

# Management's Statement on **Financial Reporting**

The following financial statements, which consolidate the financial results of Guardian Capital Group Limited, its subsidiaries and other controlled entities, and the Company's interest in a joint venture, and all other information in this annual report, are the responsibility of management.

The financial statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized on pages 33 to 36. Management maintains a system of internal controls over the financial reporting process designed to provide reasonable assurance that relevant and reliable financial information is produced. Management also administers a program of ethical business conduct compliance.

KPMG LLP, the Company's independent auditors, have audited the accompanying financial statements. Their report follows. The Audit Committee of the Board of Directors, composed of independent directors, meets regularly with management and KPMG LLP to review their activities and to discuss the external audit process, internal controls, accounting policies and financial reporting matters. KPMG LLP has unrestricted access to the Company, the Audit Committee and the Board of Directors.

The Audit Committee has reviewed the financial statements and Management's Discussion and Analysis and recommended their approval to the Board of Directors. Based on this recommendation, the financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

*George Mavroudis,*
President and Chief Executive Officer

*Donald Yi,*
Chief Financial Officer

February 22, 2018

# Independent **Auditors' Report**

## TO THE SHAREHOLDERS OF GUARDIAN CAPITAL GROUP LIMITED

We have audited the accompanying consolidated financial statements of Guardian Capital Group Limited, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of operations, comprehensive income, equity and cash flow for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Guardian Capital Group Limited as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flow for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada

February 22, 2018

# Consolidated **Balance Sheets**

| As at December 31 ($ in thousands) | | 2017 | | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash | $ | **48,887** | $ | 37,974 |
| Interest-bearing deposits with banks | | **52,637** | | 77,268 |
| Accounts receivable and other | | **39,087** | | 36,370 |
| Receivables from clients and broker | | **63,366** | | 60,672 |
| Securities backing third party investor liabilities (note 3) | | **5,688** | | 99,452 |
| | | **209,665** | | 311,736 |
| **Securities** (note 4) | | **652,176** | | 620,218 |
| **Other assets** | | | | |
| Deferred tax assets (note 11c) | | **1,557** | | 1,618 |
| Intangible assets (note 5) | | **29,575** | | 29,386 |
| Equipment (note 6) | | **4,497** | | 3,957 |
| Goodwill (note 7) | | **15,014** | | 15,014 |
| Investment in associate | | **–** | | 333 |
| | | **50,643** | | 50,308 |
| **Total assets** | $ | **912,484** | $ | 982,262 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Bank loans and borrowings (note 8) | $ | **55,859** | $ | 62,664 |
| Third party investor liabilities (note 3) | | **5,688** | | 99,452 |
| Client deposits | | **52,653** | | 77,364 |
| Accounts payable and other | | **41,011** | | 37,829 |
| Income taxes payable | | **1,333** | | 6,300 |
| Payable to clients | | **63,366** | | 60,672 |
| | | **219,910** | | 344,281 |
| Other liabilities | | **–** | | 699 |
| Deferred tax liabilities (note 11c) | | **51,370** | | 51,812 |
| **Total liabilities** | | **271,280** | | 396,792 |
| **Equity** | | | | |
| **Shareholders' equity** | | | | |
| Capital stock (notes 12a and 12b) | | **19,871** | | 20,268 |
| Treasury stock (note 13a) | | **(23,764)** | | (22,342) |
| Contributed surplus | | **15,882** | | 13,972 |
| Retained earnings | | **395,462** | | 327,669 |
| Accumulated other comprehensive income | | **226,965** | | 240,610 |
| | | **634,416** | | 580,177 |
| **Non-controlling interests** | | **6,788** | | 5,293 |
| **Total equity** | | **641,204** | | 585,470 |
| **Total liabilities and equity** | $ | **912,484** | $ | 982,262 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

*Barry J. Myers,*
Director

*George Mavroudis,*
Director

# Consolidated Statements **of Operations**

| For the years ended December 31 ($ in thousands, except per share amounts) | | 2017 | | 2016 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Gross commission revenue | $ | 134,838 | $ | 123,584 |
| Commissions paid to advisors | | (92,838) | | (85,163) |
| | | 42,000 | | 38,421 |
| Management fee income, net (note 14) | | 71,818 | | 68,181 |
| Administrative services income | | 14,338 | | 14,553 |
| Dividend and interest income (note 15) | | 23,082 | | 21,531 |
| **Net revenue** | | 151,238 | | 142,686 |
| **Expenses** | | | | |
| Employee compensation and benefits (note 16) | | 63,397 | | 61,093 |
| Amortization | | 4,213 | | 4,185 |
| Interest | | 814 | | 837 |
| Other expenses | | 34,645 | | 31,904 |
| | | 103,069 | | 98,019 |
| **Operating earnings** | | 48,169 | | 44,667 |
| Net gains (note 17) | | 62,534 | | 38,617 |
| Earnings before income taxes | | 110,703 | | 83,284 |
| Income tax expense (notes 11a and 11b) | | 15,516 | | 12,709 |
| **Net earnings** | $ | 95,187 | $ | 70,575 |
| Net earnings available to: | | | | |
| Shareholders | $ | 93,692 | $ | 69,475 |
| Non-controlling interests | | 1,495 | | 1,100 |
| Net earnings | $ | 95,187 | $ | 70,575 |
| Net earnings available to shareholders per Class A and Common share (note 18): | | | | |
| Basic | $ | 3.37 | $ | 2.44 |
| Diluted | | 3.19 | | 2.32 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of **Comprehensive Income**

| For the years ended December 31 ($ in thousands) | | **2017** | | 2016 |
|---|---|---|---|---|
| **Net earnings** | **$** | **95,187** | $ | 70,575 |
| **Other comprehensive income (loss)** | | | | |
| Available for sale securities, net of taxes: | | | | |
| Net change in fair value | | **24,614** | | 81,249 |
| Income tax provision | | **2,211** | | 10,241 |
| | | **22,403** | | 71,008 |
| Transfer to net earnings of unrealized gains upon disposal | | **(21,917)** | | (25,341) |
| Reversal of income taxes | | **2,641** | | 3,177 |
| | | **(19,276)** | | (22,164) |
| Net change in available for sale securities, net of taxes | | **3,127** | | 48,844 |
| Net change in foreign currency translation adjustment on foreign subsidiaries | | **(16,772)** | | (9,526) |
| **Other comprehensive income (loss)** | | **(13,645)** | | 39,318 |
| **Comprehensive income** | **$** | **81,542** | $ | 109,893 |
| Comprehensive income available to: | | | | |
| Shareholders | **$** | **80,047** | $ | 108,793 |
| Non-controlling interests | | **1,495** | | 1,100 |
| Comprehensive income | **$** | **81,542** | $ | 109,893 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of **Equity**

| For the years ended December 31 ($ in thousands) | | **2017** | | 2016 |
|---|---|---|---|---|
| **Total equity, beginning of year** | **$** | **585,470** | $ | 508,526 |
| **Shareholders' equity, beginning of year** | | **580,177** | | 504,255 |
| **Capital stock** | | | | |
| Balance, beginning of year | | **20,268** | | 20,929 |
| Acquired and cancelled (note 12c) | | **(397)** | | (661) |
| Capital stock, end of year | | **19,871** | | 20,268 |
| **Treasury stock** | | | | |
| Balance, beginning of year | | **(22,342)** | | (21,563) |
| Acquired (note 13a) | | **(2,300)** | | (2,200) |
| Disposed of (note 13a) | | **878** | | 1,421 |
| Treasury stock, end of year | | **(23,764)** | | (22,342) |
| **Contributed surplus** | | | | |
| Balance, beginning of year | | **13,972** | | 12,280 |
| Stock-based compensation expense | | **1,988** | | 1,731 |
| Equity-based entitlements redeemed | | **(78)** | | (39) |
| Contributed surplus, end of year | | **15,882** | | 13,972 |
| **Retained earnings** | | | | |
| Balance, beginning of year | | **327,669** | | 291,317 |
| Net earnings available to shareholders | | **93,692** | | 69,475 |
| Dividends declared and paid (note 12d) | | **(11,100)** | | (9,736) |
| Capital stock acquired and cancelled (note 12c) | | **(14,809)** | | (23,204) |
| Acquisition of non-controlling interests (note 25) | | **–** | | (183) |
| Net gain on treasury stock | | **10** | | – |
| Retained earnings, end of year | | **395,462** | | 327,669 |
| **Accumulated other comprehensive income** | | | | |
| Balance, beginning of year | | **240,610** | | 201,292 |
| Unrealized gains on available for sale securities, net of income taxes | | | | |
| Balance, beginning of year | | **218,590** | | 169,746 |
| Net change during year | | **3,127** | | 48,844 |
| Balance, end of year | | **221,717** | | 218,590 |
| Foreign currency translation adjustment on foreign subsidiaries | | | | |
| Balance, beginning of year | | **22,020** | | 31,546 |
| Net change during year | | **(16,772)** | | (9,526) |
| Balance, end of year | | **5,248** | | 22,020 |
| Accumulated other comprehensive income, end of year | | **226,965** | | 240,610 |
| **Shareholders' equity, end of year** | | **634,416** | | 580,177 |
| **Non-controlling interests** | | | | |
| Balance, beginning of year | | **5,293** | | 4,271 |
| Net earnings available to non-controlling interests | | **1,495** | | 1,100 |
| Acquisition of non-controlling interests (note 25) | | **–** | | (78) |
| **Non-controlling interests, end of year** | | **6,788** | | 5,293 |
| **Total equity, end of year** | **$** | **641,204** | $ | 585,470 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of **Cash Flow**

| For the years ended December 31 ($ in thousands) | 2017 | 2016 |
|---|---|---|
| **Operating activities** | | |
| Net earnings | $ 95,187 | $ 70,575 |
| Adjustments for: | | |
| Income taxes paid | (11,190) | (10,624) |
| Income tax expense | 15,516 | 12,709 |
| Net gains | (62,534) | (38,617) |
| Amortization of intangible assets | 3,428 | 3,428 |
| Amortization of equipment | 785 | 757 |
| Stock-based compensation | 1,988 | 1,731 |
| Other non-cash expenses | 31 | 102 |
| | 43,211 | 40,061 |
| Net change in non-cash working capital items (note 20) | 1,427 | 2,454 |
| Net cash from operating activities | 44,638 | 42,515 |
| **Investing activities** | | |
| Net disposition of securities | 16,609 | 4,661 |
| Net acquisition of securities backing third party investor liabilities | (114,831) | (88,821) |
| Income taxes paid | (11,410) | – |
| Acquisition of intangible assets | (4,521) | (5,422) |
| Proceeds from disposition of intangible assets | 1,694 | 1,973 |
| Acquisition of equipment | (1,360) | (723) |
| Business acquisition (note 24) | 425 | – |
| Net cash used in investing activities | (113,394) | (88,332) |
| **Financing activities** | | |
| Dividends | (11,100) | (9,736) |
| Acquisition of capital stock | (15,206) | (23,865) |
| Acquisition of treasury stock | (2,300) | (2,200) |
| Disposition of treasury stock | 888 | 1,421 |
| Net proceeds from (repayment of) bankers' acceptances | (24,300) | 9,300 |
| Acquisition of non-controlling interests (note 25) | – | (261) |
| Net funds from third party investors in consolidated mutual funds | 114,831 | 88,821 |
| Net cash from financing activities | 62,813 | 63,480 |
| **Foreign exchange** | | |
| Net effect of foreign exchange rate changes on cash balances | (639) | (574) |
| Net change in net cash | (6,582) | 17,089 |
| Net cash, beginning of year | 37,710 | 20,621 |
| Net cash, end of year | $ 31,128 | $ 37,710 |
| Net cash represented by: | | |
| Cash | $ 48,887 | $ 37,974 |
| Bank indebtedness | (17,759) | (264) |
| | $ 31,128 | $ 37,710 |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated **Financial Statements**

## 1. REPORTING ENTITY

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

These consolidated financial statements include the accounts of Guardian, its subsidiaries, and its interest in joint ventures (together, the "Company") and have been prepared under International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on a going concern basis and the historical cost basis, except for certain financial instruments that have been measured at fair value.

These consolidated financial statements were authorized for issuance by the Board of Directors of Guardian on February 22, 2018

### (b) Basis of presentation

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

Certain reclassifications have been made to the 2016 comparative financial information in order to conform to the current period's presentation.

### (c) Estimates and judgments

The preparation of these consolidated financial statements necessitates the use of judgments, estimates and assumptions, which affect the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Management believes that the significant areas where judgment is necessarily applied are those which relate to the:

(i) Assessment of goodwill, intangible assets and available for sale securities for impairments;
(ii) Valuation of certain securities that do not have quoted market prices;
(iii) Determination of when control of another entity exists;
(iv) Assessment of provisions; and
(v) Measurement of share-based payments.

### (d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The Company considers several factors in determining whether it has power over another entity which it will be able to use to obtain benefits.

a. When voting rights are relevant in determining power over an entity, the Company considers its: existing voting rights; potential voting rights that are currently exercisable and have no substantive barriers to exercise; agreements with other vote holders; rights from other contractual arrangements; economic interests; or a combination of the foregoing. Offsetting these factors, the Company considers matters which prevent it from the exercise of power.
b. When voting rights are not relevant in determining power over an entity, the Company considers: evidence of its practical ability to direct the activities of the entity for the Company's benefit; indications of a special relationship between it and the entity; and whether it has a significant exposure to variability of returns. In evaluating these three factors, the Company gives greater weight to evidence of its ability to direct the activities of the entity, for its benefit.

(ii) Transactions eliminated on consolidation

All inter-company transactions, balances, income and expenses between the consolidated entities are eliminated on consolidation.

(iii) Non-controlling interests

Non-controlling interests in the equity of subsidiaries are shown as a component of the equity section of the consolidated balance sheet, to the extent that they represent a residual interest in the Company's assets.

(iv) Consolidated funds

When the Company consolidates an investment fund in which it invests, it records its proportionate share of the securities held by the fund as Securities and the proportionate share of the securities attributable to third party investors as Securities backing third party investor liabilities. The ownership interest in the fund attributable to third party investors is classified as a liability and recorded as Third party investor liabilities.

### (e) Joint ventures

Joint ventures are those entities over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method. The investments are carried in the balance sheets at cost as adjusted by post-acquisition changes in the Company's share of the net assets of the joint venture.

### (f) Foreign currency translation

Amounts denominated in foreign currencies included in these consolidated financial statements are translated into Canadian dollars as follows:

(i) Foreign currency denominated monetary items are translated at the reporting date exchange rates. Revenues and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains and losses, if any, resulting from the foregoing, are included in net gains in the statements of operations.

(ii) The accounts of certain subsidiaries of the Company are maintained in foreign currencies. Assets and liabilities have been translated into Canadian dollars at exchange rates prevailing at the reporting date and revenues and expenses at average monthly rates. Adjustments resulting from the exchange gains and losses on the translation of balance sheets of the Company's foreign operations are recorded as a foreign currency translation adjustment in the statements of comprehensive income, and the cumulative balance is included in accumulated other comprehensive income in the shareholders' equity section of the consolidated balance sheets.

### (g) Financial instruments

The Company's financial assets may be classified as held for trading, available for sale or loans and receivables. Financial liabilities are classified as either held for trading or other financial liabilities.

(i) Measurement of financial instruments

All of the Company's financial instruments are initially measured at fair value. Subsequent to initial recognition, financial instruments classified as held for trading or available for sale are measured:

a. At fair value using quoted bid prices in an active market;
b. Where there is no active market, but the fair value can be reliably measured, the fair value is determined using valuation techniques; or
c. All other financial instruments, which include loans & receivables and other financial liabilities, are measured at amortized cost using the effective interest rate method.

(ii) Changes in fair value

During each reporting period, changes in the fair value of financial assets classified as available for sale are reflected in other comprehensive income, and changes in fair value of financial assets classified as held for trading are reflected in net earnings.

(iii) Classification of the Company's financial instruments

The Company's financial instruments are classified as follows:

a. Loans & receivables are comprised of interest-bearing deposits with banks, accounts receivable and other, loans receivable, receivables from clients and broker and securities at amortized cost.
b. Available for sale is comprised of securities, that are not classified in another category.
c. Held for trading is comprised of cash, the Company's proportionate share of the securities held by consolidated investment funds, due on securities sold short, derivative contracts and third party investor liabilities.
d. Other financial liabilities is comprised of bank loans and borrowings, client deposits, accounts payable and other, and payable to clients

(iv) Fair value hierarchy

Financial assets and liabilities measured at fair value are categorized using a fair value hierarchy which reflects the significance of the inputs used in making the fair value measurements. The fair value hierarchy is as follows:

a. Level 1 – Quoted market prices: financial instruments with quoted prices for identical instruments in active markets.
b. Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices of similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
c. Level 3 – Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

(v) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### (h) Impairment of securities and other financial assets

For securities and other financial assets other than those classified as held for trading, an assessment is made each period by management as to whether there is any objective evidence of impairment. Factors considered in determining whether an objective evidence of impairment exists include the length of time and the extent of unrealized loss, the financial condition and near-term prospects of the issuer and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If it is determined that the security is impaired, the carrying value of the security is written down to its fair value, and any cumulative loss amount recognized in other comprehensive income is reclassified to net income.

For securities and other financial assets carried at amortized cost, if, in subsequent periods, the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the loss is reversed in the statement of operations. The reversal is limited to what the amortized amount of the security or financial asset would have been if no impairment loss had been recognized in a prior period.

### (i) Intangible assets

Intangible assets represent new business costs (costs pertaining mainly to new advisors and branches joining the Company's mutual fund dealer and securities dealer subsidiaries), computer software and the Company's rights to future revenues (substantially in the Company's life insurance managing general agency subsidiary). Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. They are amortized on a straight-line basis over their estimated useful lives, as outlined below:

(i) New business costs – They are amortized over a number of years, ranging from three to fifteen years;
(ii) Computer software – The initial cost of the main computer processing system used by the mutual fund dealer subsidiary is amortized over ten years, with subsequent improvements to this system being amortized over five years, and other computer software being amortized over three to five years; and
(iii) Rights to future revenues – They are amortized over fifteen years.
Amortization methods and useful lives of the intangible assets are reviewed annually and adjusted, if appropriate. Intangible assets are derecognized upon disposal or when they are fully amortized and no longer in use.

### (j) Equipment

Equipment is carried at cost less accumulated amortization and accumulated impairment losses, and is amortized over its expected useful life, as outlined below:

(i) Computer hardware – The majority of computer hardware is amortized on a straight-line basis over three to five years;
(ii) Furniture and equipment – The majority of furniture and equipment is amortized on a diminishing balance basis at a rate of 20% per annum, and works of art included within furniture and equipment are not amortized; and
(iii) Leasehold improvements – Leasehold improvements are amortized on a straight-line basis over the remaining terms of the leases.
Amortization rates and the useful life of equipment is reviewed annually and adjusted, if appropriate. Equipment is derecognized upon disposal or when it no longer has any residual value.

### (k) Goodwill

Goodwill represents the excess of the cost of acquisition of an acquired business over the fair value of the net identifiable tangible and intangible assets of the acquired business at the date of acquisition. Goodwill is not amortized, but is carried at cost less accumulated impairment losses. Goodwill is allocated to the appropriate cash-generating units for the purpose of impairment testing.

### (l) Impairment of non-financial assets

The Company annually reviews its indefinite-life, non-financial assets, which includes goodwill, for impairment. If the net carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered impaired and the excess amount is charged to Statement of Operations as an impairment loss.

The Company annually reviews its finite-life, non-financial assets, including intangible assets and equipment, whether there are any indications an asset may be impaired. If such indication exists, its carrying amount is compared to the estimated recoverable amount and any excess of the carrying amount over recoverable amount is charged to net gains as an impairment loss.

Recoverable amount is considered to be the higher of the estimated fair value of asset, less the estimated cost to sell and the net present value of future cash flow expected from the use of the asset.

### (m) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the obligation at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Where some or all of the expenditure is expected to be reimbursed by insurance or some other party, and it is virtually certain, the reimbursement is recognized as a separate asset on the balance sheets, and the net amount is recorded in the statements of operations. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is reversed.

### (n) Treasury stock

The Company accounts for its shares purchased and held by its subsidiary, the Guardian Capital Group Employee Profit Sharing Plan Trust (the "EPSP Trust"), as treasury stock.

### (o) Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The various types of revenues and the associated accounting policies adopted by the Company are as follows:

(i) Gross commission revenue earned and commissions paid to advisors are recorded on a trade date basis.
(ii) Management fees – The Company provides investment management and investment advisory services to clients, in consideration for management fees, which are generally calculated based on the fair value of the assets managed, in accordance with the agreements with the clients. The fees are earned over the time during which the assets are managed or advised on by the Company. Certain clients also pay performance fees, if the performance of such clients' assets under management exceeds that of certain performance benchmarks by an agreed level over a stated time period. Such fees are recorded when the services have been provided, the amount of the fees can be reliably measured, and it is probable that the fees will be received. Management fees are presented net of referral fees paid to third party agents.

(iii) Administrative services income – The Company earns income from certain clients and advisors, associated with the maintenance of accounts with the Company, and the provision of general corporate, trust or other services. Such income is recognized, on an accrual basis, as the services continue to be performed on an ongoing basis, based on agreements with the clients or advisors. When the Company holds assets or liabilities on a fiduciary basis in providing these services, those assets and liabilities and the income and expenses associated with them are excluded from these consolidated financial statements.

(iv) Dividend and interest income is recorded as follows:

a. Dividends are recognized when the Company's right to receive payment is established.

b. Interest is recorded as earned over the period of time during which the interest-paying investment is held, on an effective interest rate method.

### (p) Employee compensation and benefits

Wages, salaries, profit sharing, bonuses, payroll taxes and levies and paid annual leaves are accrued in the year in which the associated services are rendered by employees and when a reliable estimate of the obligation can be made.

### (q) Stock-based compensation

Stock-based compensation is accounted for under the fair value method, under which the compensation cost is measured at the fair value of the equity instruments issued ("Stock-based entitlement") and is expensed over the vesting period of the Stock-based entitlement.

Fair value of a Stock-based entitlement is determined on the issuance date and is the product of the fair value of the equity instrument and the number of those instruments that are ultimately expected to vest.

Where a Stock-based entitlement has been modified, the incremental change in fair value of the Stock-based entitlement is expensed over the remaining vesting period.

### (r) Interest expense

Interest expense comprises interest payable on borrowings recognized using the effective interest rate method.

### (s) Pensions

The Company operates a defined contribution pension plan, payments to the plan are charged as expenses as they are incurred. The Company has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

### (t) Net gains or losses

Net gains or losses include any gains or losses related to changes in the fair value of held for trading securities, or on disposal of available for sale securities or other assets recognized on a trade date basis, and adjustments to record any impairment in value.

### (u) Income tax

Income tax on net earnings for the year comprises current tax and deferred tax. Income tax is recognized in the statements of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case it is also recognized in other comprehensive income or directly in equity. Income taxes generally result from operating activities and taxes paid are shown in the statement of cash flow as an operating activity, unless the taxes can be specifically identified with significant investing or financing activities.

Current tax is the tax expected to be payable on the taxable net earnings for the year, calculated using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right of offset exists.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the balance sheets and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax is calculated using the tax rates expected to apply in the periods in which assets will be realized or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting entities, relate to income taxes levied by the same taxation authority and a legal right to set off exists.

### (v) Earnings per share

The calculation of basic earnings per share is based on the weighted average of Class A and common shares outstanding during the year and on earnings available to the holders of the Class A and common shares. Diluted earnings per share are calculated by adjusting for the effect of outstanding dilutive instruments, such as stock options or stock-based entitlements, using the treasury stock method.

### (w) Related parties

For the purposes of these financial statements, a party is considered related to the Company if such party or the Company has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Company and such party are subject to common significant influence. Related parties may be individuals or other entities. All material transactions with related parties are recorded at fair value.

### (x) Future changes in accounting policies

A number of new standards, and amendments to existing standards, have been issued by the International Accounting Standards Board ("IASB"), which are effective for the Company's consolidated financial statements in certain future periods. The following is a description of these new standards and amendments:

(i) Financial instruments

On July 24, 2014, the IASB issued its fourth and final version of IFRS 9 Financial Instruments ("IFRS 9"), which is to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), with a more simplified guidance on classification and measurement of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 will be implemented on a retrospective basis, with restatement of comparative amounts and balances on transition.

Based on the Company's assessment, IFRS 9 will not result in changes in how the carrying values of the Company's financial instruments are determined. However, the recording of the changes in fair values of those instruments is expected to differ, depending upon the classification into which they fit. The Company's existing holding of securities will be re-classified as Fair Value Through the Profit or Loss, and the current classifications, Available for Sale ("AFS") and Held for Trading, will no longer be used. The Company's securities will continue to be measured at fair value, but all changes in fair value will be recorded in net earnings, whereas under IAS 39, changes in fair value of AFS securities were recorded in other comprehensive income. As a result, under IFRS 9, the timing of net gains and losses will be determined entirely by the changes in the fair values, rather than the timing of disposition of the securities. This change may result in greater volatility in the Company's net earnings.

The implementation of IFRS 9 will also result in the transfer of accumulated unrealized gains on AFS securities, net of taxes, from accumulated other comprehensive income to retained earnings, upon transition.

The following table shows the expected impact on the Company's balance sheet on transition to IFRS 9:

| As at January 1, 2017 | | 2017 |
|---|---|---|
| Increase (decrease) in previously reported amounts: | | |
| Consolidated balance sheet | | |
| Retained earnings | $ | 218,590 |
| Accumulated other comprehensive income | | (218,590) |
| Shareholders' equity | $ | – |

(ii) Revenue

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), which establishes a new framework for the recognition of revenue from contracts with customers and replaces several other standards and interpretations. The core principle of IFRS 15 is that an entity recognizes revenue upon the transfer of services to customers, which reflects the payments to which it expects to be entitled. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Based on the Company's assessment of IFRS 15, it is anticipated that there will be no significant impact on the manner in which the Company recognizes revenues. However, there will be changes to the Company's accounting for the incremental costs incurred in securing a new revenue stream ("Contract Costs"). IFRS 15 requires the capitalization of Contract Costs at inception of a revenue stream and their amortization over the expected life of the related revenue stream, which is generally expected to be greater than one year. Contract Costs currently incurred by the Company are mainly comprised of sales incentives paid to employees, and these incentives are expensed over the period in which the obligation to pay them arises, which usually is one year. The adoption of IFRS 15 will result in a decrease in employee compensation and benefits expense, an increase in amortization expense, and higher net earnings in the first year of a new revenue stream, but lower net earnings in subsequent periods. In addition, Contract Costs, like other similar assets, will be subject to review for impairment.

The Company is currently in the process of finalizing the assessment phase, quantifying the adjustments to the opening balances and the comparative figures required to be presented in the Q1 2018 financial statements.

(iii) Leases

On January 13, 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which is to replace IAS 17 Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company continues to evaluate the impact IFRS 16 will have on its consolidated financial statements.

## 3. SECURITIES BACKING THIRD PARTY INVESTOR LIABILITIES and THIRD PARTY INVESTOR LIABILITIES

Securities backing third party investor liabilities represent third party investors' proportionate interest in the assets of the consolidated investment funds. They are classified as held for trading and are categorized as level 1, based upon the fair value hierarchy.

Third party investor liabilities represents third party investors' proportionate ownership interest in the consolidated funds. The liabilities are payable on redemption of the units of the funds by the third party investors and will be settled with the proceeds from disposition of securities backing third party investor liabilities. The value of the liabilities is equal to and varies with the value of the securities backing third party investor liabilities. The liabilities are classified as held for trading and are categorized as level 1, based upon the fair value hierarchy.

The Company continually evaluates whether it controls these funds. On the date when the funds are no longer deemed to be controlled, the Securities backing third party investor liabilities and Third party investor liabilities are derecognized in the financial statements. During the current year, the Company determined it ceased to control three of these funds, as disclosed in note 23 (c) (v) and (vi). As a result, the Company derecognized, $246,668 (2016 - nil) of such assets and their offsetting liabilities during the year.

## 4. SECURITIES

### (a) Classification of securities

An analysis of the Company's securities by available for sale and held for trading classifications and by the type of security is as follows:

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Available for sale securities: | | |
| Short-term securities (i) | $ 9,810 | $ 12,567 |
| Fixed-income securities (i) | 19,328 | 10,484 |
| Bank of Montreal common shares (ii) | 372,146 | 386,240 |
| Other equity securities (i) | 167,790 | 43,358 |
| Real estate fund (iii) | 13,545 | 23,759 |
| | 582,619 | 476,408 |
| Held for trading securities (iv): | | |
| Equity securities | 69,557 | 143,810 |
| | $ 652,176 | $ 620,218 |

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

(ii) During the year, the Company sold a total of 300 (2016 – 531) of the Bank of Montreal common shares. The details on the gains on these sales are disclosed in note 17.

(iii) As at December 31, 2017, the Company had $22,484 (2016 – $11,834) in commitments to further invest in a real estate fund managed by a subsidiary.

(iv) Held for trading securities consist of the Company's proportionate share of the securities held by investment funds which the Company controls and consolidates. The Company continually evaluates its ownership of these funds and whether they are still deemed to be controlled. For certain funds, it was determined at certain dates during the year that they were no longer controlled by the Company and were deconsolidated as of those dates, as disclosed in note 23 (c) (v) and (vi). Those securities were reclassified from Held for trading securities to Available for sale securities.

### (b) Fair value hierarchy

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

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Level 1 | $ 586,130 | $ 548,424 |
| Level 2(i) | 54,141 | 59,427 |
| Level 3(ii) | 11,905 | 12,367 |
| Securities | $ 652,176 | $ 620,218 |

(i) Level 2 securities include investments in certain funds, and are valued using the net asset value of each fund.

(ii) Level 3 securities are substantially comprised of an investment in one entity which is valued based on a multiple of 3% (2016 – 4%) of the assets managed by it. All level 3 securities are classified as available for sale.

(iii) During 2017 and 2016, there have been no transfers between Levels.

### (c) Changes in Level 3

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

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 12,367 | $ 12,918 |
| Decrease in estimated fair value, recognized in other comprehensive income | (462) | (551) |
| Balance, end of year | $ 11,905 | $ 12,367 |

## 5. INTANGIBLE ASSETS

A summary of the composition of and changes in the Company's intangible assets is as follows:

| For the years ended December 31 | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | New business costs | Computer software | Rights to future revenue | Total | New business costs | Computer software | Rights to future revenue | Total |
| Cost: | | | | | | | | |
| Balance, beginning of year | $ 12,989 | $ 4,230 | $ 36,644 | $ 53,863 | $ 12,800 | $ 3,911 | $ 33,114 | $ 49,825 |
| Purchases | 454 | 1,371 | 2,696 | 4,521 | 342 | 374 | 4,706 | 5,422 |
| Disposals | (129) | – | (1,082) | (1,211) | (116) | (53) | (1,176) | (1,345) |
| Foreign exchange translation adjustments | (77) | (10) | 0 | (87) | (37) | (2) | – | (39) |
| Balance, end of year | 13,237 | 5,591 | 38,258 | 57,086 | 12,989 | 4,230 | 36,644 | 53,863 |
| Accumulated amortization: | | | | | | | | |
| Balance, beginning of year | 10,804 | 3,595 | 10,078 | 24,477 | 10,055 | 3,227 | 8,167 | 21,449 |
| Amortization expense | 804 | 303 | 2,321 | 3,428 | 850 | 423 | 2,155 | 3,428 |
| Disposals | (46) | – | (311) | (357) | (95) | (53) | (244) | (392) |
| Foreign exchange translation adjustments | (33) | (4) | – | (37) | (6) | (2) | – | (8) |
| Balance, end of year | 11,529 | 3,894 | 12,088 | 27,511 | 10,804 | 3,595 | 10,078 | 24,477 |
| Carrying value, end of year | $ 1,708 | $ 1,697 | $ 26,170 | $ 29,575 | $ 2,185 | $ 635 | $ 26,566 | $ 29,386 |

## 6. EQUIPMENT

A summary of the composition of and changes in the Company's equipment is as follows:

| For the years ended December 31 | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Office equipment | Leasehold improvements | Total | Office equipment | Leasehold improvements | Total |
| Cost: | | | | | | |
| Balance, beginning of year | $ 8,304 | $ 3,682 | $ 11,986 | $ 8,059 | $ 3,328 | $ 11,387 |
| Purchases | 316 | 1,044 | 1,360 | 366 | 357 | 723 |
| Disposals | – | – | – | (20) | – | (20) |
| Foreign exchange translation adjustments | (73) | (7) | (80) | (101) | (3) | (104) |
| Balance, end of year | 8,547 | 4,719 | 13,266 | 8,304 | 3,682 | 11,986 |
| Accumulated amortization: | | | | | | |
| Balance, beginning of year | 6,016 | 2,013 | 8,029 | 5,530 | 1,798 | 7,328 |
| Amortization expense | 498 | 287 | 785 | 539 | 218 | 757 |
| Disposals | – | – | – | (20) | – | (20) |
| Foreign exchange translation adjustments | (41) | (4) | (45) | (33) | (3) | (36) |
| Balance, end of year | 6,473 | 2,296 | 8,769 | 6,016 | 2,013 | 8,029 |
| Carrying value, end of year | $ 2,074 | $ 2,423 | $ 4,497 | $ 2,288 | $ 1,669 | $ 3,957 |

## 7. GOODWILL

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

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Balance, beginning and end of year | $ 15,014 | $ 15,014 |

Goodwill acquired in business acquisitions is allocated to the cash generating units ("CGUs") that are expected to benefit from the business acquisitions. The carrying amount of goodwill has been allocated to the relevant CGUs as follows:

| As at December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Financial advisory: | | | | |
| Mutual fund distributor | $ | **4,227** | $ | 4,227 |
| Life insurance managing general agency | | **9,599** | | 9,599 |
| Investment management: | | | | |
| Fundamental global and emerging markets investment manager | | **1,188** | | 1,188 |
| Total goodwill | $ | **15,014** | $ | 15,014 |

Goodwill is not amortized, but is subject to annual impairment testing, as described below.

Impairment tests were performed upon the goodwill associated with each CGU in both 2017 and 2016, based upon each CGU's estimated fair value, less costs to sell. Management used a multi-factor model to determine fair value, with the principal assumptions being values assigned as multiples of key business analytics pertaining to each CGU. Management considers that the key business analytics are client assets under management in the investment management CGU, client assets under administration in both financial advisory CGUs and annual service fees and first year commissions in the life insurance managing general agency. It is management's opinion that estimating fair value based on these analytics is in accordance with established industry practice, and that the multiples used are consistent with market transactions. Based on the results of this testing, there were no indications that the goodwill was impaired in 2017 or 2016.

The most sensitive assumptions used in the above testing were:

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Mutual fund distributor: | | |
| Multiple of assets under administration | **1.00%** | 1.00% |
| Life insurance managing general agency: | | |
| Multiple of annual net service revenue | **6** | 6 |
| Fundamental global and emerging markets investment manager: | | |
| Multiple of assets under management | **1.75%** | 1.75% |

The following table shows for each CGU the amount by which the estimated fair value less the costs to sell referred to above exceeds its carrying value:

| As at December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Mutual fund distributor | $ | **94,572** | $ | 89,256 |
| Life insurance managing general agency | | **59,690** | | 42,424 |
| Fundamental global and emerging markets investment manager | | **–** | | – |

The fair value estimated above would be considered to be Level 3 under the fair value hierarchy as defined in accounting policy note 2 (g)(iv).

Management believes that a possible reasonable change in key assumptions would not cause an impairment in either financial advisory CGU. A reduction of the multiple used to value the fundamental global and emerging markets investment manager CGU to 1.65% from 1.75% would reduce the estimated fair value less costs to sell of this CGU by $75 (2016 – $52).

## 8. BANK LOANS AND BORROWINGS

Bank loans and borrowings are comprised of the following:

| As at December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Bank indebtedness (a) | $ | **17,759** | $ | 264 |
| Bankers' acceptances payable (b) | | **38,100** | | 62,400 |
| Bank loans and borrowings | $ | **55,859** | $ | 62,664 |

The Company has three borrowing facilities with major Canadian chartered banks, which provide the ability to borrow in the form of demand loans or through bankers' acceptances. During 2017, the Company negotiated increases in its borrowing facilities to a total of $157,000 from $103,000 in 2016. The facilities are secured by general security agreements, the deposit of securities valued at $221,276 at December 31, 2017 (2016 - $188,292) and the deposit of treasury stock valued at $58,586 (2016 - $54,917).

### (a) Bank indebtedness

Bank indebtedness consists of demand loans and overdraft borrowing under the Company's borrowing facilities, which are due on demand and bear interest at the bank prime rate.

### (b) Bankers' acceptances payable

These borrowings under bankers' acceptances are for periods ranging from 30 to 270 days, at rates negotiated in the bankers' acceptance market, plus 0.50%.

## 9. PROVISIONS

From time to time, the Company is named as a party to claims, proceedings and investigations, including legal, regulatory and taxes, in the ordinary course of its business. While it is often not possible to estimate the outcome of the various proceedings at any time, the Company makes provisions, where possible, for the estimated outcome of such proceedings. Should any loss resulting from the resolution of any claims differ from these estimates, the difference will be accounted for as a charge to income in that year. As at December 31, 2017 and 2016, there were no material provisions recorded.

## 10. OPERATING LEASES

The Company has non-cancellable operating leases for premises and equipment with initial terms in excess of one year and which expire on various dates after year end. Future minimum payments required under these non-cancellable operating leases are as follows:

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Payable within one year | $ 2,042 | $ 2,069 |
| Payable after one year and within five years | 8,726 | 7,193 |
| Payable after five years | 5,715 | 6,396 |
| Total lease obligations | $ 16,483 | $ 15,658 |

During the year ended December 31, 2017, the Company recognized $2,239 (2016 – $2,539) of base rental costs in respect of these non-cancellable leases.

## 11. INCOME TAXES

### (a) Income tax expense

The components of the income tax expense are as follows:

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Current tax expense | | |
| Tax on profits for the current year | $ 15,552 | $ 15,256 |
| Adjustments in respect of prior periods | (28) | 189 |
| | 15,524 | 15,445 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 581 | (1,637) |
| Adjustments in respect of prior periods | (339) | – |
| Benefits from previously unrecognized tax losses or temporary differences | (228) | (1,099) |
| Adjustments due to changes in rates | (22) | – |
| | (8) | (2,736) |
| Income tax expense | $ 15,516 | $ 12,709 |

### (b) Reconciliation of income tax expense to statutory rates

The income tax expense in the consolidated statements of operations is less than the tax computed using combined Federal and Provincial statutory income tax rates of 26.5% (2016 – 26.5%) in the current year for the following reasons:

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Tax at the combined Federal and Provincial statutory income tax rate for the current year | $ 29,336 | $ 22,070 |
| Increase (decrease) in the expense due to: | | |
| Tax exempt income from securities | (3,785) | (3,937) |
| Rate differential on earnings of subsidiaries | (5,781) | (2,060) |
| Adjustments for changes in temporary differences | 3 | 866 |
| Non-taxable portion of capital gains | (3,819) | (3,518) |
| Non-deductible expenses | 123 | 313 |
| Benefits from previously unrecognized tax loss or temporary difference | (228) | (1,099) |
| Adjustments due to changes in rates | (22) | – |
| Other | (311) | 74 |
| Income tax expense | $ 15,516 | $ 12,709 |

The combined statutory income tax rate is the aggregate of the Federal income tax rate of 15.0% (2016 – 15.0%) and the Provincial income tax rate of 11.5% (2016 – 11.5%).

### (c) Deferred tax assets and liabilities

A summary of the composition of and changes in the Company's deferred tax assets and liabilities is as follows:

| For the year ended December 31, 2017 | Bank of Montreal shares | Other securities | Capital loss carry forwards | Non-capital loss carry forwards | Equipment and intangibles | Other temporary differences | Total |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets:** | | | | | | | |
| **Balance, beginning of year** | $ – | $ – | $ – | $ 827 | $ 400 | $ 391 | $ 1,618 |
| **Recognized in net earnings** | – | – | – | (194) | 6 | 127 | (61) |
| **Balance, end of year** | $ – | $ – | $ – | $ 633 | $ 406 | $ 518 | $ 1,557 |
| **Deferred tax liabilities:** | | | | | | | |
| **Balance, beginning of year** | $ 50,954 | $ 1,844 | $ (8) | $ (1,112) | $ 3,156 | $ (3,022) | $ 51,812 |
| **Recognized in net earnings** | (1,427) | 2,533 | 8 | (732) | (386) | (65) | (69) |
| **Recognized in other comprehensive income** | (424) | (6) | – | – | – | – | (430) |
| **Foreign exchange translations adjustments** | – | 98 | – | (41) | – | – | 57 |
| **Balance, end of year** | $ 49,103 | $ 4,469 | $ – | $ (1,885) | $ 2,770 | $ (3,087) | $ 51,370 |

| For the year ended December 31, 2016 | Bank of Montreal shares | Other securities | Capital loss carry forwards | Non-capital loss carry forwards | Equipment and intangibles | Other temporary differences | Total |
|---|---|---|---|---|---|---|---|
| Deferred tax assets: | | | | | | | |
| Balance, beginning of year | $ – | $ – | $ – | $ 1,041 | $ 372 | $ 441 | $ 1,854 |
| Recognized in net earnings | – | – | – | (214) | 28 | (50) | (236) |
| Balance, end of year | $ – | $ – | $ – | $ 827 | $ 400 | $ 391 | $ 1,618 |
| Deferred tax liabilities: | | | | | | | |
| Balance, beginning of year | $ 46,624 | $ (69) | $ (46) | $ (13) | $ 3,318 | $ (2,094) | $ 47,720 |
| Recognized in net earnings | (2,525) | 1,704 | 38 | (1,099) | (162) | (928) | (2,972) |
| Recognized in other comprehensive income | 6,855 | 209 | – | – | – | – | 7,064 |
| Foreign exchange translations adjustments | – | – | – | – | – | – | – |
| Balance, end of year | $ 50,954 | $ 1,844 | $ (8) | $ (1,112) | $ 3,156 | $ (3,022) | $ 51,812 |

### (d) Other temporary differences

The aggregate amount of temporary differences between costs for accounting purposes and costs for income tax purposes arising from the earnings accumulated in certain subsidiaries is $201,900 (2016 – $168,305), some of which amounts may be subject to income tax if such subsidiaries are disposed of or the earnings are otherwise distributed. Deferred tax has not been provided on these temporary differences, as the Company does not intend to dispose of such subsidiaries or distribute such earnings.

## 12. CAPITAL STOCK

### (a) Authorized

(i) Unlimited preferred shares, without par value, may be issued in an unlimited number of series, the designation, rights, privileges, conditions and other provisions of which are to be determined by the Board of Directors.

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

(iii) Unlimited common shares, without par value, convertible on a one-for-one basis into Class A non-voting shares.

**(b) Issued and outstanding**

| For the years ended December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| Class A shares | | | | |
| Outstanding, beginning of year | **26,686** | **$ 19,430** | 26,979 | $ 19,878 |
| Acquired and cancelled | **(507)** | **(367)** | (766) | (562) |
| Converted from common | **155** | **37** | 473 | 114 |
| Outstanding, end of year | **26,334** | **19,100** | 26,686 | 19,430 |
| Common shares | | | | |
| Outstanding, beginning of year | **3,469** | **838** | 4,349 | 1,051 |
| Acquired and cancelled | **(125)** | **(30)** | (407) | (99) |
| Converted to Class A | **(155)** | **(37)** | (473) | (114) |
| Outstanding, end of year | **3,189** | **771** | 3,469 | 838 |
| Total outstanding, end of year | **29,523** | **$ 19,871** | 30,155 | $ 20,268 |

**(c) Issuer bid**

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

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Purchased and cancelled | | |
| Class A | **507** | 766 |
| Common | **125** | 407 |
| Consideration paid | **$ 15,206** | $ 23,865 |
| Less average issue price, charged to share capital | **397** | 661 |
| Excess consideration charged to retained earnings | **$ 14,809** | $ 23,204 |

**(d) Dividends on common and Class A shares**

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Dividends declared and paid, per share | **$ 0.385** | $ 0.33 |

The Company also declared dividends of $0.10 and $0.125 per share payable on January 18, 2018 and April 18, 2018, respectively, on the common and Class A shares outstanding.

## 13. TREASURY STOCK

The Company provides Stock-based entitlements to certain senior employees of the Company through the EPSP Trust. The EPSP Trust purchases shares of the Company related to these Stock-based entitlements, which are in the form of either equity-based entitlements or option-like entitlements, and the shares are accounted for as treasury stock. The purchases are financed by a bank loan facility with a major chartered bank, which is secured by the shares held by the EPSP Trust and a guarantee issued by the Company.

**(a) Changes in treasury stock**

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

| For the years ended December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| Balance, beginning of year | **2,192** | **$ 22,342** | 2,299 | $ 21,563 |
| Acquired | **92** | **2,300** | 130 | 2,200 |
| Disposed | **(106)** | **(878)** | (237) | (1,421) |
| Balance, end of year | **2,178** | **$ 23,764** | 2,192 | $ 22,342 |

During the year, the Company disposed of 104 (2016 – 206) of its class A shares and 2 (2016 – 31) of its common shares for amounts equal to their costs.

As at December 31, 2017, the treasury stock was comprised of 30 common shares (2016 – 32) and 2,148 class A shares (2016 – 2,160 shares).

**(b) Equity-based entitlements**

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

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

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | 928 | 803 |
| Entitlements provided | 92 | 130 |
| Entitlements exercised | (8) | (5) |
| Forfeited | (1) | – |
| Balance, end of year | 1,011 | 928 |

Equity-based entitlements provided during the year ended December 31, 2017 had a fair value of $2,300 (2016 – $2,200).

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

**(c) Option-like entitlements**

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

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

| For the years ended December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Balance, beginning of year | 1,264 | $ 9.49 | 1,496 | $ 8.95 |
| Entitlements exercised | (97) | 8.02 | (232) | 5.97 |
| Balance, end of year | 1,167 | $ 9.62 | 1,264 | $ 9.49 |

No option-like entitlements were provided during 2017 or 2016.

As at December 31, 2017, there were option-like entitlements outstanding for 0 common shares (2016 – 2) and 1,167 class A shares (2016 – 1,262).

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

The following table summarizes information about option-like entitlements outstanding:

| | Number of shares | Weighted average exercise price | Vested number of shares | Weighted average exercise price |
|---|---|---|---|---|
| As at December 31, 2017 | | | | |
| $5.01 – $7.50 | 74 | $ 6.76 | 74 | $ 6.76 |
| $7.51 – $10.00 | 869 | 9.35 | 869 | 9.35 |
| $10.01 – $12.50 | 224 | 11.59 | 224 | 11.59 |
| | 1,167 | $ 9.62 | 1,167 | $ 9.62 |
| As at December 31, 2016 | | | | |
| $5.01 – $7.50 | 124 | $ 6.51 | 124 | $ 6.51 |
| $7.51 – $10.00 | 876 | 9.35 | 846 | 9.34 |
| $10.01 – $12.50 | 264 | 11.36 | 264 | 11.36 |
| | 1,264 | $ 9.49 | 1,234 | $ 9.49 |

## 14. MANAGEMENT FEE INCOME, NET

Management fee income, net is comprised of the following:

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Management fee income, gross | $ 75,925 | $ 72,177 |
| Less: fees paid to referring agents | (4,107) | (3,996) |
| Management fee income, net | $ 71,818 | $ 68,181 |

## 15. DIVIDEND AND INTEREST INCOME

Dividend and interest income is comprised of the following:

| For the years ended December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Dividends on Bank of Montreal shares | $ | 13,792 | $ | 14,442 |
| Other dividends | | 7,585 | | 5,383 |
| Dividend income | | 21,377 | | 19,825 |
| Interest income | | 1,705 | | 1,706 |
| Dividend and interest income | $ | 23,082 | $ | 21,531 |

## 16. EMPLOYEE COMPENSATION AND BENEFITS

Employee compensation and benefits are comprised of the following:

| For the years ended December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Salaries and other compensation, payroll taxes and benefits | $ | 60,467 | $ | 58,531 |
| Contributions to defined contribution pension plans | | 942 | | 831 |
| Stock-based compensation | | 1,988 | | 1,731 |
| Employee compensation and benefits | $ | 63,397 | $ | 61,093 |

## 17. NET GAINS

Net gains are comprised of the following:

| For the years ended December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Held for trading securities, net (i) | $ | 38,828 | $ | 13,080 |
| Available for sale securities (ii) | | 22,325 | | 25,161 |
| Net gains on securities | | 61,153 | | 38,241 |
| Foreign exchange gains (losses) (iii) | | 541 | | (644) |
| Gains on disposition of intangible assets | | 840 | | 1,020 |
| Net gains | $ | 62,534 | $ | 38,617 |

(i) Net gains on held for trading securities include net gains on the Company's proportionate share of the securities held by consolidated investment funds, the securities backing third party investor liabilities and the appreciation or depreciation of third party investor liabilities.

(ii) Included in net gains on available for sale securities are gains on the sale of Bank of Montreal commons shares. Information pertaining to these sales is as follows:

| For the years ended December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Shares sold | | 300 | | 531 |
| Proceeds of sales | $ | 29,867 | $ | 43,279 |
| Gains | | 18,975 | | 23,995 |
| Income tax expense | | 2,514 | | 3,179 |

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

## 18. NET EARNINGS PER SHARE

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

| For the years ended December 31 | | 2017 | | 2016 |
|---|---|---|---|---|
| Weighted average number of class A and common shares outstanding | | | | |
| Basic | | 27,779 | | 28,476 |
| Effect of outstanding entitlements and options from stock based compensation plans | | 1,636 | | 1,548 |
| Diluted | | 29,415 | | 30,024 |
| Net earnings available to shareholders of class A and common shares | | | | |
| Basic | $ | 93,692 | $ | 69,475 |
| Effect of outstanding entitlements and options from stock based compensation plans | | 278 | | 232 |
| Diluted | $ | 93,970 | $ | 69,707 |

The effects of 583 (2016 – 775) entitlements from the Company's stock-based compensation arrangements were excluded from the calculation of the diluted number of shares as those entitlements were anti-dilutive.

## 19. BUSINESS SEGMENTS

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

### (a) Business segments

The following table discloses certain information about these segments:

| | Investment management | | Financial advisory | | Corporate activities and investments | | Inter-segment transactions | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| For the years ended December 31 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Revenue | | | | | | | | | | |
| Gross commission revenue | **$ –** | $ – | **$136,350** | $124,317 | **$ –** | $ – | **$ (1,512)** | $ (733) | **$134,838** | $123,584 |
| Commissions paid to advisors | **–** | – | **(92,838)** | (85,163) | **–** | – | **–** | – | **(92,838)** | (85,163) |
| | **–** | – | **43,512** | 39,154 | **–** | – | **(1,512)** | (733) | **42,000** | 38,421 |
| Management fee income, net | **71,397** | 68,125 | **–** | – | **–** | – | **421** | 56 | **71,818** | 68,181 |
| Administrative services income | **6,081** | 6,870 | **8,259** | 7,683 | **–** | – | **(2)** | – | **14,338** | 14,553 |
| Dividend and interest income | **280** | 380 | **867** | 678 | **21,835** | 20,482 | **100** | (9) | **23,082** | 21,531 |
| Net revenue | **77,758** | 75,375 | **52,638** | 47,515 | **21,835** | 20,482 | **(993)** | (686) | **151,238** | 142,686 |
| Expenses | | | | | | | | | | |
| Employee compensation and benefits | **36,167** | 35,127 | **18,097** | 17,328 | **9,133** | 8,638 | **–** | – | **63,397** | 61,093 |
| Amortization | **371** | 344 | **3,382** | 3,376 | **460** | 465 | **–** | – | **4,213** | 4,185 |
| Interest | **50** | 215 | **29** | 190 | **755** | 592 | **(20)** | (160) | **814** | 837 |
| Other expenses | **20,755** | 19,500 | **16,582** | 15,666 | **(1,719)** | (2,736) | **(973)** | (526) | **34,645** | 31,904 |
| | **57,343** | 55,186 | **38,090** | 36,560 | **8,629** | 6,959 | **(993)** | (686) | **103,069** | 98,019 |
| Operating earnings | **20,415** | 20,189 | **14,548** | 10,955 | **13,206** | 13,523 | **–** | – | **48,169** | 44,667 |
| Net gains (losses) | **377** | (1,036) | **835** | 1,014 | **61,322** | 38,639 | **–** | – | **62,534** | 38,617 |
| Net earnings before income taxes | **20,792** | 19,153 | **15,383** | 11,969 | **74,528** | 52,162 | **–** | – | **110,703** | 83,284 |
| Income tax expense | **5,765** | 5,288 | **4,214** | 3,410 | **5,537** | 4,011 | **–** | – | **15,516** | 12,709 |
| Net earnings | **$ 15,027** | $ 13,865 | **$ 11,169** | $ 8,559 | **$ 68,991** | $ 48,151 | **$ –** | $ – | **$ 95,187** | $ 70,575 |
| Net earnings available to: | | | | | | | | | | |
| Shareholders | **$ 15,027** | $ 13,865 | **$ 9,674** | $ 7,459 | **$ 68,991** | $ 48,151 | **$ –** | $ – | **$ 93,692** | $ 69,475 |
| Non-controlling interests | **–** | – | **1,495** | 1,100 | **–** | – | **–** | – | **1,495** | 1,100 |
| | **$ 15,027** | $ 13,865 | **$ 11,169** | $ 8,559 | **$ 68,991** | $ 48,151 | **$ –** | $ – | **$ 95,187** | $ 70,575 |
| Capital expenditure on segment assets | | | | | | | | | | |
| Intangible assets | **$ –** | $ 25 | **$ 4,521** | $ 5,235 | **$ –** | $ 162 | **$ –** | $ – | **$ 4,521** | $ 5,422 |
| Equipment | **32** | 349 | **541** | 9 | **787** | 365 | **–** | – | **1,360** | 723 |
| Segment assets and liabilities: | | | | | | | | | | |
| Assets | **$ 90,457** | $109,371 | **$144,393** | $ 132,095 | **$720,020** | $ 795,683 | **$ (42,386)** | $ (54,887) | **$912,484** | $982,262 |
| Liabilities | **71,647** | 94,991 | **128,956** | 127,826 | **113,063** | 228,862 | **(42,386)** | (54,887) | **271,280** | 396,792 |

### (b) Geographic segments

The Company also operates in various geographic regions. The following table discloses certain information about the Company's activities by geography:

| | Canada | | Rest of the world | | Inter-segment transactions | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| For the years end December 31 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Net revenue | **$ 135,662** | $ 130,925 | **$ 15,816** | $ 12,574 | **$ (240)** | $ (813) | **$ 151,238** | $ 142,686 |
| As at December 31 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Segment non-current assets | | | | | | | | |
| Intangible assets | **$ 28,683** | $ 28,268 | **$ 892** | $ 1,118 | **$ –** | $ – | **$ 29,575** | $ 29,386 |
| Equipment | **3,823** | 3,184 | **674** | 773 | **–** | – | **4,497** | 3,957 |
| Goodwill | **13,826** | 13,826 | **1,188** | 1,188 | **–** | – | **15,014** | 15,014 |

## 20. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Decrease (increase) in non-cash working capital assets | | |
| Interest-bearing deposits with banks | **$ 20,012** | $ 38,082 |
| Accounts receivable and other | **(697)** | (5,459) |
| Receivables from clients and broker | **(2,694)** | (11,547) |
| Increase (decrease) in non-cash working capital liabilities | | |
| Client deposits | **(20,089)** | (38,046) |
| Accounts payable and other | **2,201** | 7,877 |
| Payable to clients | **2,694** | 11,547 |
| Net change in non-cash working capital items | **$ 1,427** | $ 2,454 |

## 21. FINANCIAL RISKS MANAGEMENT

The Company's goal in managing financial risk is to evaluate the risks being taken against the benefits that are targeted to be achieved and, where those risks are deemed acceptable, to mitigate those risks, where practicable. A discussion on the Company's risk management practices is included under the heading "Risk Factors" in the Management's Discussion and Analysis of the Company's 2017 Annual Report. The following are the more significant risks associated with financial instruments to which the Company is subject:

### (a) Concentration Risk

The Company is exposed to concentration risk associated with the $372,146 (2016 – $386,240) investment in the Bank of Montreal shares, which is a significant portion of the Company's securities holdings. The Company monitors the investment in the Bank of Montreal shares on a continuous basis. A change in the price of the Bank of Montreal shares by 10% would result in an unrealized gain or loss of $37,215 (2016 – $38,624) being recorded in other comprehensive income.

### (b) Market Risk

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

(i) Price Risk

The Company is exposed to price risk with its securities. Unrealized changes in the values of its securities are recognized in net earnings, for held for trading securities, and in other comprehensive income, for available for sale securities. This risk is managed through the use of professional in-house portfolio management expertise, which takes a disciplined approach to investment management. The securities holdings, excluding the Bank of Montreal shares, are also diversified by asset class and, as shown in the chart below, by geographical region. The chart also indicates the gain or loss which would be recognized in net earnings and other comprehensive income as a result of a 10% change in the market prices.

| | Fair value of held for trading securities | Unrealized gain or loss recognized in net earnings from 10% market change in region | Fair value of available for sale securities, excluding Bank of Montreal shares, short-term securities and bonds | Unrealized gain or loss recognized in other comprehensive income from 10% market change in region |
|---|---|---|---|---|
| As at December 31, 2017 | | | | |
| **Canada** | **$ 1,483** | **±$ 148** | **$ 34,358** | **±$ 3,436** |
| **Rest of the World** | **68,074** | **6,807** | **146,977** | **14,698** |
| | **$ 69,557** | **±$ 6,955** | **$ 181,335** | **±$ 18,134** |
| As at December 31, 2016 | | | | |
| Canada | $ 2,752 | ±$ 275 | $ 34,898 | ±$ 3,490 |
| Rest of the World | 141,058 | 14,106 | 32,107 | 3,211 |
| | $ 143,810 | ±$ 14,381 | $ 67,005 | ±$ 6,701 |

The price risk associated with Securities backing third party investor liabilities are equal to and offset by the appreciation or depreciation in Third party liabilities. As a result, they have not been included in the above risk analysis.

(ii) Currency Risk

The Company's main exposure to currency risk is on its investments in its foreign subsidiaries, amounting to $188,085 (2016 – $158,503). Changes in the value of these investments caused by changes in the US dollar and UK pound exchange rates are reflected in other comprehensive income in the period in which the change occurs. This foreign currency exposure is not actively managed, due to the long-term nature of these investments, but is monitored by management. From time to time, a foreign subsidiary holds unhedged Canadian dollars, which can result in foreign exchange gains or losses being recorded by the subsidiary. Upon translation of their results on consolidation, the Company recognizes equal and offsetting gains or losses in other comprehensive income. This is not considered to be a currency risk as there is no economic risk to the Company.

(iii) Interest Rate Risk

| As at December 31 | **2017** | 2016 |
|---|---|---|
| Interest rate sensitive assets: | | |
| Interest-bearing deposits with banks | **$ 52,637** | $ 77,268 |
| Fixed-income securities | **19,328** | 10,484 |
| | **$ 71,965** | $ 87,752 |
| Interest rate sensitive liabilities: | | |
| Bank loans and borrowings | **$ 55,859** | $ 62,664 |
| Client deposits | **52,653** | 77,364 |
| | **$ 108,512** | $ 140,028 |

The Company most significant exposure to interest rate risk is through its bank loans and borrowings as detailed above. The interest rates on these borrowings are short-term and, if short-term rates increase, the Company's interest expense will increase and net earnings will decrease. If interest rates had been 1% higher throughout the year, with all other variables held constant, the Company's interest expense have been increased by approximately $661 (2016 – $565). The Company holds $19,328 (2016 – $10,484) of fixed-income securities which are primarily investments in fixed-income funds that are managed by its investment management subsidiary. The interest rate risk associated with these fixed income securities are managed first by the Company that selects appropriate fixed income funds for various interest rates environments and then by the subsidiary who then manages the funds selected in accordance each fund's investment policy. The interest rate risk on interest-bearing deposits with banks and the client deposits, both of which arise in the international banking operation is considered to be low, as the Company manages by matching interest and maturities on the assets and liabilities.

**(c) Credit Risk**

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

| As at December 31 | **2017** | 2016 |
|---|---|---|
| Cash | **$ 48,887** | $ 37,974 |
| Interest-bearing deposits with banks | **52,637** | 77,268 |
| Accounts receivable and other | **39,087** | 36,370 |
| Receivable from clients and broker | **63,366** | 60,672 |
| Short-term securities | **9,810** | 12,567 |
| Fixed-income securities | **19,328** | 10,484 |
| | **$ 233,115** | $ 235,335 |

The cash and interest-bearing deposits with banks and the majority of the accounts receivable are due from major institutions. The Company reviews the credit worthiness of any banks with which it places deposits, and does not deal with a bank if it is not satisfied with the bank's financial strength. The credit exposure on receivables from clients is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary. There are controls on the amounts that these clients may borrow, depending upon the securities that are pledged. The credit risk associated with the Company's investment in fixed-income funds is managed by the periodic monitoring of the activities of the portfolio manager who, through diversification and credit quality reviews of the fund's investments, manages the fund's credit risk. The short-term securities and bonds are short-duration, investment-quality securities. From time to time, advisors in the financial advisory segment may owe advances received or amounts resulting from reversal of commissions. The credit risk associated with these amounts is mitigated by management's review of the advisors' ability to repay the advances or the potential commission reversals, particularly in the MGA subsidiary, before amounts are paid to the advisors.

### (d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities, which are substantially all due within one year. The Company manages this financial risk by maintaining a portfolio of liquid securities, and by arranging for significant borrowing facilities with major Canadian banks, at attractive rates.

## 22. CAPITAL MANAGEMENT

The Company considers the following to be its capital: shareholders' equity and bank loans and borrowings. The Company's objectives in managing its capital are to:

(a) maintain a strong capital base to provide investor, creditor, regulator and client confidence; and

(b) provide returns to shareholders by the payment of dividends, the repurchase of the Company's shares, and the enhancement of long-term value.

The allocation of capital to, and the return from, the Company's businesses are monitored by senior management. Certain of the Company's operating subsidiaries are subject to various types of capital requirements imposed by the regulatory authorities to which they report. During the year, and at year end, the subsidiaries complied with those requirements. As at December 31, 2017, the Company's regulated businesses had total regulatory capital amounting to $190,941 (2016 – $157,259). These amounts are, in all cases, in excess of the regulatory requirements, and are adjusted by the Company as necessary from time to time. The Company's borrowing facility, through which bankers' acceptances are issued, is subject to certain terms and conditions. During the year, and at year end, the Company complied with those terms and conditions.

## 23. RELATED PARTIES

### (a) Parent company

Minic Investments Limited ("Minic") is a corporation of which A. Michael Christodoulou, a director and officer of the Company, is currently President. Minic is owned by The Christodoulou 2004 Family Trust, a discretionary trust of which the children of the late John Christodoulou are possible beneficiaries. As at December 31, 2017, Minic beneficially owned 49.4% (2016 – 49.4%) of the Company's outstanding common shares. In 2017 and 2016, there were no transactions between Minic and the Company

### (b) Key management personnel

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly. The Company has determined that its key management personnel include the Board of Directors of the Company and certain senior executives of the Company. The following summarizes transactions with key management personnel:

| For the years ended December 31 | | **2017** | | 2016 |
|---|---|---|---|---|
| Short-term employment benefits | **$** | **4,955** | $ | 4,349 |
| Post-employment benefits | | **21** | | 18 |
| Stock-based compensation | | **850** | | 761 |
| | **$** | **5,826** | $ | 5,128 |

The Company provides investment management services to key management personnel at reduced fee rates, which are available to all employees of the Company. The following is a summary of the fees paid for these services:

| For the years ended December 31 | | **2017** | | 2016 |
|---|---|---|---|---|
| Investment management services | **$** | **25** | $ | 36 |

### (c) Subsidiaries

The Company's significant subsidiaries are as follows:

| As at December 31 | Country of organization | 2017 | 2016 |
|---|---|---|---|
| | | Voting ownership interest | |
| Guardian Capital LP | Canada | **100%** | 100% |
| Guardian Capital Advisors LP | Canada | **100%** | 100% |
| Guardian Ethical Management Inc. (i) | Canada | **100%** | 50% |
| Guardian Capital Enterprises Limited | Canada | **100%** | 100% |
| GuardCap Asset Management Limited | United Kingdom | **100%** | 100% |
| Guardian Capital Real Estate Inc. | Canada | **100%** | 100% |
| Guardian Capital LLC | United States | **100%** | 100% |
| Worldsource Wealth Management Inc. | Canada | **100%** | 100% |
| Worldsource Financial Management Inc. | Canada | **100%** | 100% |
| Worldsource Securities Inc. | Canada | **100%** | 100% |
| IDC Worldsource Insurance Network Inc. (ii) | Canada | **80%** | 80% |
| Guardian Capital Holdings International Ltd. | Cayman Islands | **100%** | 100% |
| Alexandria Bancorp Limited | Cayman Islands | **100%** | 100% |
| Alexandria Global Investment Management Ltd. | Cayman Islands | **100%** | 100% |
| Alexandria Trust Corporation | Barbados | **100%** | 100% |
| Guardian Capital Group Limited Employee Profit Sharing Plan (iii) | Canada | **0%** | 0% |
| Guardian Growth & Income Fund | Canada | **75%** | 77% |
| AMG Guardian Capital Global Dividend Fund (iv) | United States | **89%** | 96% |
| Guardcap UCITS Funds PLC, Emerging Markets Fund | Ireland | **100%** | 100% |
| Guardian Emerging Markets Equity Fund (v) | Canada | **0%** | 57% |
| Guardian Canadian Focused Equity Fund (v) | Canada | **0%** | 37% |
| Guardcap UCITS Funds PLC, Global Equity Fund (vi) | Ireland | **34%** | 51% |

(i) On January 1, 2017, Guardian Ethical Management Inc. ("GEM") became a wholly owned subsidiary when the Company acquired the 50% voting interest in GEM which it previously did not own for consideration of $333. Prior to becoming a subsidiary, GEM was a joint venture.

(ii) The principal place of business for IDC Worldsource Insurance Network Inc. ("IDC WIN"), the Company's insurance managing general agency ("MGA") subsidiary, is located at Suite 700, 625 Cochrane Drive, Markham, Ontario. The non-controlling interests have a 20% (2016 – 20%) voting ownership interest in IDC WIN.

The accumulated non-controlling interest in the Company's accounts related to IDC WIN is as follows:

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | **$ 5,293** | $ 4,271 |
| Net earnings available to non-controlling interests | **1,495** | 1,100 |
| Acquisition of non-controlling interests (note 25) | **–** | (78) |
| Balance, end of year | **$ 6,788** | $ 5,293 |

The following is summarized financial information about IDC WIN before consolidation adjustments:

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Cash | **$ 5,340** | $ 804 |
| Other current assets | **4,746** | 3,577 |
| Intangible assets | **22,046** | 16,671 |
| Other non-current assets | **4,063** | 738 |
| | **$ 36,195** | $ 21,790 |
| Current liabilities | **$ 5,495** | $ 6,688 |
| Non-current liabilities | **1,645** | 476 |
| | **$ 7,140** | $ 7,164 |

| For the years ended December 31 | 2017 | 2016 |
|---|---|---|
| Revenue | **$ 29,244** | $ 25,832 |
| Net earnings | **7,951** | 6,452 |
| Comprehensive income | **7,951** | 6,452 |

(iii) The Company does not hold any ownership interest in the EPSP Trust. However, the EPSP Trust is consolidated because the Company has power over the activities of the EPSP Trust, which are conducted on behalf of the Company, and the Company remains exposed to the risks of the EPSP Trust, which are described in note 13, Treasury Stock.
(iv) Formerly known as Aston Guardian Capital Global Dividend Fund.
(v) Effective March 31, 2017, Guardian Emerging Markets Equities Fund and Guardian Focused Equity Fund ceased to be subsidiaries and, as a result, the Company no longer consolidates these funds.
(vi) Effective December 31, 2017, Guardcap UCITS Funds PLC, Global Equity Fund ceased to be a subsidiary and, as a result, the Company no longer consolidates this fund.

### (d) Interest in unconsolidated structured entities

The Company sponsors and manages a number of investment funds for the purpose of efficiently investing monies on behalf of the Company's clients, who are the primary investors in these funds. These investment funds, which are separate legal entities, are financed by investments made by clients and, to a limited extent, the Company. The Company is paid for the investment management services it provides to the funds either directly by the funds or by the investors. The following tables summarize the size of the unconsolidated investment funds managed by the Company, and the Company's interests in and transactions with those investment funds:

| As at December 31 | **2017** | 2016 |
|---|---|---|
| Net assets of unconsolidated investment funds | **$ 3,637,606** | $ 2,656,569 |
| Company's interests in unconsolidated investment funds | **193,559** | 59,860 |

| For the years ended December 31 | **2017** | 2016 |
|---|---|---|
| Net revenues earned directly from unconsolidated investment funds | **$ 9,327** | $ 8,807 |

The Company's maximum exposure to loss from its interest in these investment funds is limited to the amount of its investment.

## 24. INVESTMENT IN ASSOCIATE

On January 1, 2017, the Company acquired the remaining 50% of the voting interest not previously held in a joint venture, Guardian Ethical Management Inc. ("GEM") for consideration of $333. The consideration paid was equal to 50% of net working capital of GEM, which consisted of cash and net current liabilities. As a result of the transaction, the Company derecognized the investment in associates and recognized the assets and liabilities of GEM, upon consolidation. This resulted in net cash inflow of $425, which was comprised of $758 of cash held by GEM, less the $333 paid to the vendor.

## 25. ACQUISITION OF NON-CONTROLLING INTERESTS

During 2016, the Company purchased for cash consideration of $261 a portion of the non-controlling interest in IDC WIN, thereby increasing the Company's ownership interest to 79.7% from 79.3%. The transaction was recorded in the equity accounts as follows:

| | |
|---|---|
| Consideration paid | $ 261 |
| Carrying value of non-controlling interests | 78 |
| Excess consideration charged to retained earnings | $ 183 |

## 26. SUBSEQUENT EVENT

On January 2, 2018, the Company closed the acquisition of a 70% interest in Alta Capital Management, LLC ("Alta"), an investment management firm based in Salt Lake City, Utah, USA. At closing, Alta had in excess of $3 billion USD of assets under management ("AUM"). The primary reasons for acquiring Alta were to provide the Company with increased access to an important market and to further diversify its AUM and revenue sources.

The Company expects the total consideration for the transaction to be approximately $62,000 ($49,500 USD) which is comprised of $56,327 ($45,000 USD) paid on closing, plus the present value of an estimated deferred amount payable over four years from closing. The deferred amount is contingent upon the level of AUM achieved, to a maximum of $10,000 USD.

The Company is in the process of ascertaining the fair values of the identifiable net assets acquired, including the valuation of investment contracts, and the determination of deferred tax liabilities and goodwill, if any. The Company expects that the identifiable net assets acquired will be primarily comprised of intangible assets, which represent Alta's existing investment management contracts. Goodwill, if any, will represent the value of Alta arising from potential synergies, including a broader platform for the Company's growth.

In conjunction with this acquisition, the Company has entered into employment agreements with the key employees of Alta.

The costs associated with this transaction were $600 and have been included in 2017 expenses.

# Directors

# Principal **Executives** and **Investment Professionals**

## BOARD OF DIRECTORS

James S. Anas •*
A. Michael Christodoulou
Petros Christodoulou •
Harold W. Hillier •
George Mavroudis
Edward T. McDermott •
Barry J. Myers •
Hans-Georg Rudloff •

*Committees:*

**Governance**
A. Michael Christodoulou
Edward T. McDermott •*
Barry J. Myers •

**Compensation**
James S. Anas •
Harold W. Hillier •*
Edward T. McDermott •
Hans-Georg Rudloff •

**Audit**
James S. Anas •
Harold W. Hillier •
Barry J. Myers •*

* Chairman
• Independent Directors

## GUARDIAN CAPITAL GROUP LIMITED

George Mavroudis
*President and Chief Executive Officer*

C. Verner Christensen
*Senior Vice-President and Secretary*

A. Michael Christodoulou
*Senior Vice-President, Strategic Planning and Development*

Robin Lacey
*Head of Institutional Asset Management*

Matthew D. Turner
*Senior Vice-President and Chief Compliance Officer*

*Donald Yi*
*Chief Financial Officer*

Ernest B. Dunphy
*Vice -President and Controller*

Leslie Lee
*Vice-President, Human Resources*

Angela Shim
*Vice-President, Marketing and Corporate Initiatives*

## GUARDIAN CAPITAL LP

Denis Larose
*Chief Investment Officer*

*Portfolio Managers:*

Gary M. Chapman
*Managing Director*

Kevin R. Hall
*Managing Director*

Peter A. Hargrove
*Managing Director*

Srikanth G. Iyer
*Managing Director*

Stephen D. Kearns
*Managing Director*

D. Edward Macklin
*Managing Director*

Michele J. Robitaille
*Managing Director*

Michael P. Weir
*Managing Director*

Sam Baldwin
*Senior Portfolio Manager*

Sera Kim
*Portfolio Manager*

## GUARDIAN CAPITAL ADVISORS LP

Anthony Messina
*Managing Director, Head of Private Wealth*

*Private Client Portfolio Managers:*

Michael E. Barkley
*Senior Vice-President*

George E. Crowder
*Senior Vice-President*

Douglas G. Farley
*Senior Vice-President*

Michael G. Frisby
*Senior Vice-President*

J. Matthew Baker
*Vice-President*

Thierry Di Nallo
*Vice-President*

Christie F. Rose
*Vice-President*

Mark Bodnar
*Client Portfolio Manager*

Grace Cleary-Yu
*Client Portfolio Manager*

Andrew Cox
*Portfolio Manager, Guardian Capital LP*

Simon Bowers
*Vice-President, Private Client Trading*

## ALTA CAPITAL MANAGEMENT, LLC

Michael O. Tempest
*Managing Principal and Chief Investment Officer*

*Portfolio Managers:*

Casey D. Nelson
*Principal and Senior Analyst*

Tyler A. Partridge
*Principal and Senior Analyst*

Melanie H. Peche
*Principal and Portfolio Manager*

Nathan Rhees
*Principal and Client Portfolio Manager*

Andrew H. Schaffernoth
*Principal and Client Portfolio Manager*

## ALEXANDRIA BANCORP LIMITED

Robert F. Madden
*General Manager*

Derrick Harper
*Chief Financial Officer*

## ALEXANDRIA TRUST CORPORATION

Robert F. Madden
*Director*

## GUARDCAP ASSET MANAGEMENT LIMITED

Steve Bates
*Chief Investment Officer*

*Portfolio Managers:*

Michael Boyd
*Investment Manager*

Bojana Bidovec Kumar
*Investment Manager*

Clive Lloyd
*Investment Manager*

Joris Nathanson
*Investment Manager*

Orlaith O'Connor
*Investment Manager*

Edward R. Wallace
*Investment Manager*

Giles Warren
*Investment Manager*

Michael Hughes
*Client Portfolio Manager*

## GUARDIAN CAPITAL REAL ESTATE INC.

A. Michael Christodoulou
*Managing Director*

Frank Bartello
*Senior Vice-President of Acquisitions and Asset Management*

Joshua Hamer
*Vice-President of Acquisitions and Asset Management*

*Investment Committee:*

Andrew Barnicke
A. Michael Christodoulou
Kevin Hall
George Mavroudis

## WORLDSOURCE WEALTH MANAGEMENT INC.

Paul Brown
*Managing Director*

John T. Hunt
*Managing Director*

Linda Kenny
*Chief Financial Officer*

Paige Wadden
*Head of Compliance*

Katharine Baran
*Vice-President, Head of Operations and Technology*

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Investor Relations
George Mavroudis
email: info@guardiancapital.com

Auditors
KPMG LLP

Principal Bankers
Canadian Imperial Bank of Commerce
Bank of Montreal

Toronto Stock Exchange Listing

| Shares | Symbol |
|---|---|
| Common | GCG |
| Class A | GCG.A |

Annual Meeting
May 11, 2018
11:00 a.m.
King Gallery
The Suites at One King West
1 King Street West
Toronto, Ontario

Custodian and Fund Administrator
RBC Investor Services Trust

Registrar and Transfer Agent
Computershare Investor Services Inc.
Telephone: 1-800-564-6253
Website: www.investorcentre.com/service

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Our history. Your future.