

Guardian Capital Group Limited

# 2018 Annual Report



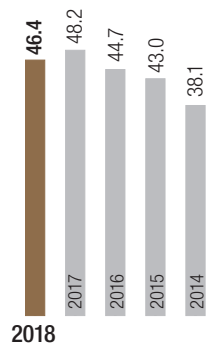
**GUARDIAN CAPITAL**

Our history. Your future.

## *Table of Contents*

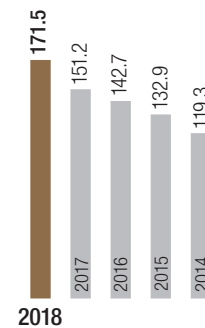
2	Financial Highlights
4	Chairman's Message
5	President and Chief Executive Officer's Message
9	Review of Operations
14	Management's Discussion and Analysis
27	Ten Year Review
28	Management's Statement on Financial Reporting
29	Independent Auditors' Report
31	Consolidated Financial Statements
35	Notes to Consolidated Financial Statements
58	Directors, Principal Executives and Investment Professionals

## 2018 Financial Highlights



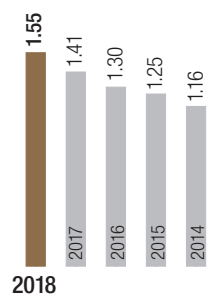
### OPERATING EARNINGS

For the years ended December 31 (\$ in millions)



### NET REVENUE

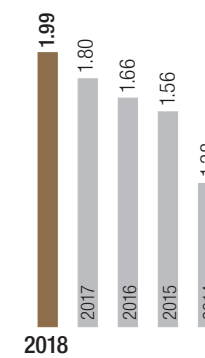
For the years ended December 31 (\$ in millions)



### ADJUSTED CASH FLOW FROM OPERATIONS<sup>1</sup>

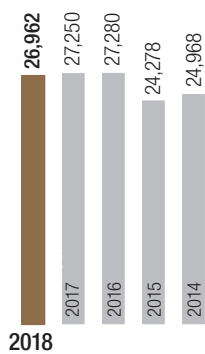
(per share, diluted)

For the years ended December 31 (in \$)

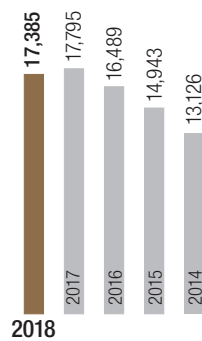


### EBITDA<sup>1</sup> (per share, diluted)

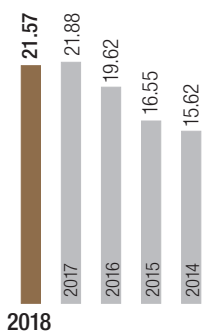
For the years ended December 31 (in \$)



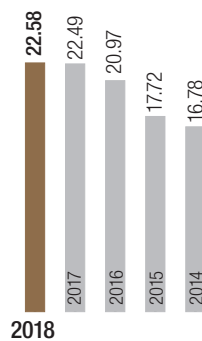
**ASSETS UNDER MANAGEMENT**  
As at December 31 (\$ in millions)



**ASSETS UNDER ADMINISTRATION**  
As at December 31 (\$ in millions)



**SHAREHOLDERS' EQUITY** (per share, diluted)<sup>1</sup>  
As at December 31 (in \$)



**SECURITIES** (per share, diluted)<sup>1</sup>  
As at December 31 (in \$)

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

## Chairman's Message

### Dear Fellow Shareholders,

Guardian Capital Group Limited, founded 57 years ago, has completed another year of successful and growing operations in 2018. With this accomplishment, I am happy to report, on behalf of your Board of Directors, that Guardian once again succeeded in growing many of its financial measures, including dividends. These results are evidence both of a successful business strategy and its execution by a highly effective management team.

We have been carrying out a variety of planned transformations in our businesses over the past years and it is challenging to assess the impact from one single year's results but, with hindsight, it becomes evident just how much has changed and been achieved. Our transformational journey will continue to build upon these achievements. Once again, I restate that the company's strategy "to initiate sustained successes, with a strong management team in place" is building a robust and innovative company. We believe that management has again delivered on the pillars of our strategy. The results for 2018 have contributed to a balance in earnings, which 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. We are very excited about the future.

Following on the continued growth in cash flow in 2018, your Board has declared a quarterly dividend of \$0.15 per share, an increase of 20%, payable on April 18, 2019, to the shareholders of record on April 11, 2019.

Once again our Board acknowledges Guardian's talented leadership team led by George Mavroudis, President and Chief Executive Officer, for the resilient performance in our various operations. All of us as shareholders have benefitted from the team's efforts. We also wish to acknowledge the contributions of Guardian's many Associates, across all of our businesses. We commend each of them for their passion, tireless efforts and commitment. One of our core strengths is that senior management and employees are significant investors in the Company's stock.

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. We will continue to work diligently focused, to continue to provide excellent value to our shareholders.

On behalf of the Board of Directors,

*Respectfully,*



James Anas,  
Chairman of the Board

February 21, 2019

## President and Chief Executive Officer's Message

### Dear Shareholders,

It is fairly common to assess a Company's degree of success by heralding its growth in profits year over year. In addition, there are several sub-sets of financial metrics that all companies selectively report to provide some greater depth in the overall assessment of the year's performance. In this annual report, you will find many common metrics we have been consistently highlighting year after year. We are keenly focused on achieving long-term growth in many of these key financial metrics and, although we did not necessarily improve on all metrics year over year, I interpret the results for 2018 as one of our most satisfying accomplishments. Aside from the global financial crisis of a decade ago, this past year was one of the most difficult operating business environments for us and many in our peer group who are focused on asset management and wealth management. Disruptive forces are plentiful – from portfolio construction debates on active vs. passive investment which in turn heighten the pressures on fees; insatiable demand for investor reallocation from public to private investments (infrastructure, private equity and real estate); regulatory burdens that seemingly only keep increasing; and finally, rapid technological demands on the business which often require significant investment just to remain relevant in the present and the immediate future. We have been facing all of these challenges and more, but most challenging to Guardian in 2018 were the anemic market returns in Canadian equities for most of the year, followed by a significant decline in the fourth quarter, and the continued broader lack of interest from both institutional and retail Canadian investors to allocate to their domestic market. As many of our long-standing shareholders are aware, we were founded on our strengths in investing in public Canadian equity markets, and that core capability was essentially the main focus of the Group until about a decade ago. Since then, I have been writing to you repeatedly about our efforts to invest in future growth and diversification. We have been focused on striving for a business that can be resilient throughout different economic cycles and deliver quality, sustainable and repeatable earnings. We remain totally committed to our domestic roots, but have been methodically building beyond this strong foundation. It is in these difficult, challenging domestic markets that we truly can assess the impact of our efforts to diversify and build an organization that is much more resilient beyond the fragilities of a historically highly-cyclical Canadian equity market. The results reported in this year's annual report highlight the diversification of our Group's capabilities and, most excitingly, position us with great expectations for continued future growth.

Diversification within our Investment Management business segment has been a multi-year effort while committing to preserve a top-tier capability as a core domestic investment manager. We have been active in the pursuit of adding talented investment teams and solutions across a number of geographies that go far beyond our strengths as a domestic asset manager, through both organic and inorganic means. As we have expanded our investment suite of solutions, we simultaneously focused on improving our distribution reach and client service models. In the last decade and, in particular over the past five years, we have established business activity that has credible scale and track record in new geographies, both in terms of the quality of the investment professionals and the actual level of clients served in markets beyond Canada. The effort and time to establish these teams through incubation is significant and has only been possible with a patient commitment to succeed over the long term. These efforts have not only diversified our existing business but also provide the growth prospects to be very meaningful contributors for this business segment.

The primary focus to internationalize our investment management business has involved the creation of two distinct and very successful approaches to managing non-Canadian equities, which are at the opposite spectrums of investing. One investment approach applies proprietary quantitative dynamic engineering processes to thousands of data points, which are more readily available with each passing day and, with the application of exponential growth in computing power, we are able to analyze data at speeds well beyond the faculties of traditional human analysis. This investment approach allows us the ability to be very dynamic in creating new solutions. Our recent addition of signals built on leading-edge principles of artificial intelligence have produced positive results and we see a bright future for these strategies as we continue to expand our research in this exciting field.

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At the other end of the spectrum, we are committed to traditional fundamental investment research and portfolio management, however with a laser focus to building solutions that hold our highest convictions. Given the objective of building portfolios with their best ideas, these skilled fundamental investment teams immerse themselves in unparalleled analyses on securities of interest, with the ultimate goal being to construct portfolios with their highest convictions that collectively will deliver consistently superior value-add returns. The movement to invest in high-conviction strategies began with our small acquisition in 2014 of our emerging market equity team at GuardCap Asset Management in London, UK and has since expanded there to managing global developed investment strategies. We added successfully this year to this investment theme through our acquisition of Alta Capital Management, LLC (Alta), a boutique, high-conviction, US Equity manager based in Salt Lake City. Our commitment to high-conviction investing is founded on the belief that to remain a successful and relevant active manager, given significant headwinds toward active management, one must build a successful track record in delivering high-conviction solutions that can complement the current wave of passive and smart beta investing and earn reasonable active investment management fees.

The results to date in internationalizing our portfolio management capabilities have been positive and gaining momentum, as we finished the fiscal year managing in excess of \$8 billion of client assets in non-Canadian equity strategies, representing more than 45% of our total equity strategies under management and roughly a third of our total institutional assets under management (“AUM”). This area of our firm’s capabilities represents significant future growth in AUM, but also in expanded net revenue margin. As we succeed in this strategy, we are also diversifying our client geographic coverage, which serves to reduce some of our domestic business concentration risk, but also opens new distribution opportunities toward which we are directed by a growing international client base. Investors are encouraged to monitor our progress in these areas, as we believe they have the potential to be transformational for our investment management business.

In 2018, our Investment Management Segment delivered operating earnings of \$23.0 million, growth of more than 13% over the prior year and approximately 50% of our total group operating earnings. The earnings improvement was largely attributable to the addition of Alta, which was acquired at the beginning of the year. The addition of Alta allowed us to balance the challenging trends in our domestic institutional business, where client redemptions and market declines have caused further earnings pressure. GuardCap, our global and emerging markets equity boutique in the United Kingdom, has experienced significant growth in AUM from a small base; however, as much of that growth in AUM was tilted toward the latter half of the fiscal year, we experienced a timing lag in full-year revenue growth. Furthermore, expenses were slightly increased, resulting in the overall financial improvement in this line of business to be minor year over year. We believe a full twelve-month period of the AUM on-boarded during this past fiscal year, and material additions of new client money in early 2019, will likely deliver much improved growth to the overall operating earnings of this business segment in 2019. In Canada, we continue to incubate new, innovative products and ideas, as well as providing support to existing product lines, in order to win more than our share of this highly competitive market. Guardian’s private client division continues to succeed in winning new clients. AUM has been roughly flat this past year, after an earlier period of strong growth, but this is mostly because of unfavourable markets last year. Of most relevance, we continue to bring new clients, and the business has become a consistent contributor to operating earnings. Overall, in our investment management business, we believe we are building improved margin expansion and closer than ever to substantive operating earnings improvements. However, it is never lost on us that this business is one that requires patience, as overnight 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 Wealth Management Inc. (“Worldsource”) is Guardian’s integrated financial advisory wealth platform, 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”), one of Canada’s largest Managing General Agencies (“MGA”). The financial planning and investment advisory services are provided through Worldsource Financial Management Inc. (“WFM”), a mutual fund dealer, and Worldsource Securities Inc. (“WSI”), a securities dealer. Both business units delivered revenue growth in 2018 versus 2017; however, ongoing costs related to a longer and more difficult than expected upgrade of WFM’s core technology platform masked positive results at IDCWIN and resulted in an overall earnings decline at Worldsource. This segment contributed \$12.9 million in operating earnings, representing roughly 30% of Guardian’s total operating earnings. Despite the market volatility in the fourth quarter, Worldsource finished the calendar year with \$17.4 billion in assets under administration, compared with \$17.8 billion at the end of 2017. While we are disappointed that the system conversion has been difficult and more costly than expected, we continue

to believe that upgrading our platform was a necessity to keep up with the changing times and set our offering apart from our competitors. Our expectation is that as we build on our newly improved systems, the challenges from the conversion will fade and will allow for improved efficiencies for our advisor network. We are determined to improve our overall wealth management offering and have further success in maintaining and recruiting advisors, as the Canadian market increasingly has a growing demand for a strong independent alternative for both independent advisors and financial non-bank institutions.

A significant driver of the growing operating earnings contribution from the Financial Advisory Segment is successive years of growth by IDCWIN, our MGA business. IDCWIN 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. Over the past few years, we have also demonstrated the ability to successfully identify and purchase smaller regional MGAs. In 2018, we observed that pricing expectations for potential acquisitions in this space had increased to stretched valuations. As a result, our commitment to balance growth with financial discipline has created a pause in the pursuit of any larger acquisitions. We continue to believe in our strategy of growing by making tuck-in acquisitions but, while we monitor the market valuations for such acquisitions, our focus will largely be on recruitment, until valuations return to levels that seem more reasonable to us. Growth of our MGA over the past several years is a large contributor to diversifying our operating earnings from the traditional market-influenced results of the investment management business, and has created a meaningful contribution to the intrinsic value for our shareholders.

Supporting our growing operating business segments is the continued preservation and growth of our corporate investment portfolio. Investment dividend income is still a meaningful contribution to earnings, but increasingly a smaller proportion of overall operating earnings. Dividend income declined slightly in 2018, mostly due to the Global Equity UCITS Fund no longer being consolidated into Guardian's operating earnings. At the end of 2017, we ceased consolidating this fund as the success in attracting third-party investors into the fund exceeded our seed capital. Within the portfolio, we remained largely fully committed throughout the year, investing mainly in equities, with only a slight increase to our cash weighting in Q4 to anticipate a pending demand for seed capital in support of planned new vehicle launches. The new fund launches are primarily to increase geographic distribution opportunities for existing strong and in-demand proprietary strategies, and in support of plans to seed newly created managed outcome strategies. In 2018, no Bank of Montreal shares were sold and we ended the year with a holding of 3,700,000 shares, with a fair market value of \$330 million, representing approximately 53% of our total corporate marketable securities, down from 57% a year earlier. Given our significant exposure to public equities, the fair market valuation of our corporate securities portfolio, \$627 million at the end of 2018, was slightly down at year end over the prior year due largely to the fourth quarter market volatility. However, much of that decline has been fully recovered as of writing this letter, and the value is near a record high. We approach investing our corporate securities portfolio for the long term and hence will likely remain fully invested during most periods. We are committed to diversifying our corporate securities portfolio, especially from the high concentration in BMO, but we remain patient to diversify into areas where we can also leverage improvements to our operating businesses. Over the last few years, we have strategically allocated a greater portion of our corporate investment portfolio into large-cap quality growth global securities, as they have offered our portfolio a diversification from both the concentration risk and the currency exposure of our overall pool of capital. This diversification has been even more compelling as we strategically invest in new proprietary asset management capabilities, from which we expect to grow meaningful third party fee-generating AUM.

The combination of a diverse core of wholly or majority-owned financial service businesses and a strong, liquid balance sheet has positioned Guardian to be able 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 and providing best-in-class solutions, while ultimately fulfilling our desire to be viewed as a highly respected independent investment and wealth management firm. We continue to be fortunate to be able to successfully recruit senior management, investment, sales and marketing talent across the organization, providing 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.

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For a few successive 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. So far, our cautious yet ambitious approach to acquisitions has yielded strong growth for our Group, primarily at IDCWIN in Canada, and the acquisition of Alta Capital Management in the US. While there is still much opportunity to further integrate these divisions, and identify new revenue synergies, we are continuing to monitor new acquisition opportunities which have the potential to meet one or more of our strategic goals of: 1) providing an opportunity to develop or significantly augment a sustainable, profitable business; 2) further diversifying from our concentrated exposure to or augment our capabilities in managing Canadian equities; and 3) contributing to building our global distribution and investment footprint. 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 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 2018, Guardian paid out more than \$13 million in dividends, increasing our quarterly dividend from \$0.10 a share to \$0.125 a share, an increase of 25%. We also returned over \$26 million to shareholders by repurchasing and cancelling more than 1.1 million shares in 2018. Through a combination of dividends and share repurchases, Guardian returned to its shareholders more than 90% of the adjusted cash flow from operations<sup>(1)</sup> generated in the year. Furthermore, despite the significant return of adjusted cash flow from operations to shareholders, we were also able to increase securities per share<sup>(1)</sup> to \$22.58 as at December 31, 2018, from \$22.49 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 with which we are entrusted very seriously, and is continuously striving to make improvements to all aspects of how we do business. As long as we continue to live up to these expectations, all of our stakeholders should expect to benefit from our success.

*Warmest regards,*



*George Mavroudis,*  
President and Chief Executive Officer

February 21, 2019

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

## Review of Operations

### Institutional Investment Management

Guardian's institutional investment management services are provided by Guardian Capital LP ("GCLP"), GuardCap Asset Management Limited ("GuardCap"), Alta Capital Management, LLC ("Alta") and Guardian Capital Real Estate Inc. ("GCREI"), with GCLP being, by far, the largest. We serve pension plan sponsors, broker-dealer third-party platforms, closed-end funds, insurance company segregated funds, exchange-traded funds and mutual funds, endowment funds and foundations. Our capabilities span a range of asset classes, geographic region and specialty mandates. Comprising one of the largest independent investment management firms in Canada, these entities are the successors to our original investment management business, which was founded in 1962.

Guardian's institutional assets under management ("AUM") were \$24.1 billion at the end of 2018, down marginally from \$24.3 billion at the end of 2017. The difficult market conditions through the year and resulting negative equity market performance, especially in the 4th quarter, weighed on our assets in 2018, while a continued bias against Canadian equities, both at the institutional and retail levels, again resulted in net flows out of that asset class. Institutional investors continued to reduce their allocations 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 those gains. Of late, this trend has also been embraced by retail investors, adding to the move away from Canadian equities. Offsetting these headwinds was the acquisition of Alta in January, 2018, which added \$4.2 billion to our asset base upon acquisition, thus counterbalancing what would otherwise have been a significant reduction in our AUM.

At the end of 2018, our AUM in Canadian equity strategies amounted to \$9.1 billion, compared to \$12.2 billion at the end of 2017, a net decrease of 26% compared to a market return of -9%. Our AUM in foreign equity strategies were \$8.1 billion at the end of the year, compared to \$3.9 billion at the end of 2017, an increase due mainly to the acquisition of Alta. Foreign equity strategies now account for approximately 34% of our total AUM, compared to 16% in 2017, and represent our fastest area of growth over the last few years. The fixed-income AUM at the end of 2018 were \$6.9 billion, compared to \$8.1 billion at the end of 2017, a decrease of approximately 15% 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 2018.

### *Canadian Equity*

Equity market performance was generally negative across the globe. However, the -9% total return recorded by Canadian equities lagged most of the equity markets in the developed and emerging markets, in part a function of the broad-based weakening Canadian dollar, which muted the domestic currency value of the negative international returns. One of the main drivers for this relative underperformance of Canadian stocks relates to the composition of the Canadian market: the heavily-weighted Energy sector continued to face significant weakness in crude oil prices, which fell more than 20% in the year, while the low-weighted Information Technology segment remained at the top of the leaderboard. As well, Small Cap stocks in Canada again significantly lagged their Large Cap peers. These general observations on the Canadian equity market largely explain the overall returns of our strategies. Our Core Canadian Equity strategy generated a negative total return for the year, but beat its benchmark. Our Growth strategy, exposed to Energy stocks and especially Mid to Small 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 natural 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 very strong returns relative to the broad market index in 2018 and its peer group, 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. GCLP has one of the most-experienced Canadian Equity investment teams in the industry, with nine investment professionals who have an average of 20 years of experience.

### *US Equity*

With the acquisition of Alta in January, 2018, Guardian added two flagship US equity strategies to our roster – US Large Cap Growth and US All Cap Growth. Both strategies follow a high-conviction approach, investing in quality growth companies exhibiting a high degree of free cash flow and sustainable revenue growth. This approach complements well our company-wide array of high-conviction strategies, both in concept and investment philosophy. The early part of 2018 was challenging for these strategies, as the US equity market was heavily driven by large cap technology companies and many of those, like Amazon, do not meet our quality criteria. Toward the end of the year, when volatility affected the markets and thus favored higher-quality companies, our style found some tailwind. For 2018, the Large Cap strategy beat the S&P 500 but lagged slightly the Russell 1000 Growth Index. The All Cap strategy similarly trailed the Russell 3000 Growth Index. From an AUM perspective, Alta managed \$4.2 billion (USD \$3.3 billion) at the time of acquisition and \$4.0 billion (USD \$3.0 billion) at year-end. We are proud that during a year when Alta's ownership changed significantly, all of their larger clients remained with the firm and reiterated their confidence in the team.

### *Global Equity*

Guardian has two global strategy teams. The Toronto-based GCLP team follows 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 underperformed the market in their dividend-biased strategies, which account for the majority of the team's AUM, and faced weaker results in the family of growth-oriented strategies. Despite the down year, we expect that our relative performance will improve as the heightened uncertainty in the marketplace and the expected concurrent persistence of volatility place a premium on safe, income-generating assets, and as we continue to build our portfolios emphasizing companies that grow both their earnings and dividends. In addition, we continue to develop and enhance elements of artificial intelligence in our dividend strategies, the result of a multi-year research project, and expect improvements in returns going forward. 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 US 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 2019.

GuardCap, our UK subsidiary, manages Fundamental Emerging Markets and Fundamental Global Equities strategies. The Fundamental Global Equities strategy again experienced very strong performance in 2018. This continued long history of success for these professionals dates back beyond their recent tenure at Guardian, by outperforming its benchmark by more than 10% for the second straight year. The Emerging Markets strategy, however, lagged its benchmark following a year of outperformance in 2017. We believe that our highly-experienced investment team, with a long history of solid performance, will be increasingly successful with institutional investors. In 2018, we gained a number of international clients for the Global strategy on the strength of its consistently strong performance record, and hope to continue building on this strong momentum in 2019. The Global strategy has recently reached the important AUM figure of \$1 billion, which is key to gaining more support from large investors, thus adding to our level of optimism for future growth. Finally, investor interest in concentrated strategies, especially by large institutional investors, appears to be growing. We are optimistic that we will continue to experience growth, and that 2019 will bring a number of new appointments.

### *Fixed-income*

Guardian's 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. Once again, 2018 was generally rewarding for all of our key mandates. Our consistently 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 Driven 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 continues to provide a favourable environment for our high-yield bond strategies. That said, we started witnessing some modest upward trends in bond yields in 2018, especially at the front end of the curve. As well, the negative risk sentiment in the final months of 2018 saw Investment Grade and High Yield bond yields in particular move higher, pushing credit spreads from what were historical lows into what we view as more compelling levels. The potential for interest rates to grind higher over the coming year will provide challenges for many strategies that have performed well for nearly four decades. 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 Guardian's 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 solid – for instance, one strategy earned a “Fundata FundGrade A+® Award” for its risk-adjusted performance in 2018. These are distributed as standalone portfolios, including through our Financial Advisory's distribution wealth platform, 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 offerings are very competitive in that space. They are set to see continued growth, now that they have completed a three-year performance record, a period of time that many investors see as critical before committing significant assets.

### *Real Estate*

Several years ago, Guardian created a new line of business to manage on behalf of clients direct investments in real estate properties. 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 \$177 million of capital commitments from investors, which includes \$35 million from Guardian, and deployed just under 83% of those capital commitments. 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, real estate is an important asset class for our clients, and it is establishing a successful track record of efficiently deploying clients' capital and generating strong results, which will allow it to continue growing its AUM in this asset class.

### *Investment Client Distribution*

With the introduction in early 2018 of Alta as the newest member of Guardian, the balance of our client base, when viewed Group-wide, has tilted significantly toward retail intermediary investors. This aligns with macro growth trends, particularly in the developed markets into which Guardian now distributes its investment solutions and products. The evidence of recent years, together with most forecasts for the future, lead to the conclusion that, prospectively, the majority of organic growth in AUM will come from retail and private investors. Despite their lower growth rate, institutional AUM will remain very significant and will continue to provide an attractive source of new business opportunities for Guardian. Looking at our domestic business, while our Canadian client base remains broadly diversified, we have witnessed a similar shift to a point where roughly 43% of client assets are derived from institutional, corporate and pension accounts, while 57% are invested on behalf of 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. With strong distribution activity, including the addition of an important new sub-advisory mandate and the expansion of the Guardian product set on numerous platforms, we finished 2018 with in excess of \$13 billion in AUM between SMA/UMA and sub-advisory business in this channel in Canada. Guardian's expansion of its distribution into the US market, now integrating the relationships brought into the mix by Alta, continues to pay off as the distribution efforts embrace a growing audience of potential investors and new account opening rates increase. In addition, late in 2018, Guardian seeded and launched its first '40 Act' US mutual fund, sub-advised by Alta. This expansion of investment vehicles for strategies that are already approved and well-followed opens its new avenues through which to generate positive flows. At the time of writing, we are also poised to introduce GuardCap's Emerging Markets and Global Equity strategies to the US retail intermediary audience for the first time, again leveraging Alta's connectivity to established third-party distribution relationships. Beyond the North American markets, Alta now sub-advises a US equity strategy under the Dublin, Ireland-domiciled GuardCap UCITS umbrella for distribution in Europe. GuardCap's distribution reach has expanded to include most countries in continental Europe and Israel, with the Nordic markets also in our sights. In addition to our own marketing efforts and those of the third-party marketers we retain, we have seen an encouraging increase in new business arising from screens run on manager databases we have populated, as well as searches performed by intermediaries. As we break through critical thresholds for AUM and the length of the track record for the marquee GuardCap investment strategies, we can expect these opportunities to multiply.

In Canada, beyond existing broker-dealer partnerships, in particular with the big six Canadian banks, we have experienced greater adoption of a range of capabilities found throughout Guardian. With continued consolidation in the asset management space reducing the number of independent managers, Guardian is increasingly recognized and preferred as an independent wholesaler of diversified investment solutions that deliver consistent returns, strong

investment team continuity, and excellence in servicing the advisors in the broker-dealer distribution channels. During the course of 2018, we further deepened and cemented a number of Guardian's larger bank relationships by working closely with our clients to remain as a valued partner as they reviewed their supplier relationships, both by reducing their number and by updating the economics of these sponsor-supplier relationships. This positions Guardian 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, with relentless demand for private market strategies such as private equity and debt, and infrastructure, where Guardian is not active. In Canada, the trend for pension plans to de-risk to mitigate the likelihood of mismatch between their invested assets and pension liabilities continues apace and could accelerate as interest rates normalize. As a reminder, this can be double-edged for Guardian as, on the one part, we have experienced clients continuing to reduce their Canadian equity positions to fund larger allocations to fixed-income. On the other part, we remain a beneficiary of the trend as Guardian's fixed-income team continues to be recognized for its robust capability in LDI solutions, the typical destination for these reallocated assets. Outside Canada, institutional investor interest in our global equity capabilities is increasing, and we are sourcing new business from a growing array of geographies, including successes in Australia and Sweden. Most recently, we have initiated a relationship with the largest Brazilian distributor of investment products, which will provide us with preferred access to local pension fund investors. Unlike in the more mature markets where Guardian operates, these investors are putting money to work in global markets for the first time, affording us an early mover opportunity.

Our commitment to serving the institutional investor markets and their consultants is unwavering. 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 and Alta, fundamentally-driven, positions us well for the future, both near and longer-term. During 2018, we added a new dimension to our manufacturing capabilities as we introduced the skills and personnel to develop more specific, outcome-orientated investment solutions. This, we believe, is an area of significant potential for product innovation, the first examples of which we will bring to market early in 2019. These capabilities are already being showcased with interested institutional clients. There will continue to be demand for skilled management and a premium paid for it, perhaps to replace an underperforming Canadian equity manager or to help a pension plan de-risk through LDI. Beyond this, the demand for global equities continues unabated, at a time when our expanded suite of skills in this area provides clear competitive advantages. Our recognized, traditional investment strengths and these more recently-introduced capabilities, taken together, will enhance Guardian's profile with a broadening audience – we will become better known as a leading manager and distributor of high-conviction, higher-concentration active equity strategies covering the world's major markets, and for our ability to innovate relevant and progressive investment solutions.

### **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 US, international and emerging markets strategies, provides 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 eleven seasoned client portfolio managers along with a strong administrative and support team, service and partnership with our clients remain at the forefront.

AUM was relatively flat over the year, however, as organic contributions and new business was offset by the negative markets in the year. AUM at December 31, 2018 was \$2.8 billion, compared to \$2.9 billion at the end of 2017. Our business development efforts continue to focus on promoting awareness in the professional and financial advisory communities. Continued marketing and business development efforts in the endowment and foundation communities has positioned GCA favourably.

### **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 and 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 is a licensed and regulated trust company based in Barbados, which provides domestic and international fiduciary and corporate administration services.

In 2018, we reinvested in 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, one offering insurance advisory services and the other offering financial planning and investment advisory services. The insurance advisory services are provided through IDC Worldsource Insurance Network Inc. (“IDCWIN”), a leading national life insurance Managing General Agency (“MGA”), which is 81.6% owned 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.

Worldsource had a successful year in 2018, despite challenges related to a technology platform conversion in the Dealers business and the volatility seen in financial markets. Total assets under administration (“AUA”) was \$17.4 billion at December 31, 2018, compared to \$17.8 billion at the end of 2017. Net commission revenues in 2018 were \$47.8 million and operating earnings were \$12.9 million, compared to \$43.5 million and \$14.6 million, respectively, in 2017.

In IDCWIN, the segregated fund and accumulation annuity AUA declined to \$4.6 billion as at the end of 2018, compared to \$4.9 billion at the end of 2017, due to the decline in the global financial markets. However, the annual premiums of insurance policies sold increased to \$111 million in 2018 from \$77 million in 2017. This was a result of a highly successful advisor recruitment campaign, as well as continued organic growth. 2018 was IDCWIN’s most active year for recruitment, with over \$25 million being invested in new advisors. As a result, IDCWIN grew its net commission revenue by 13% to \$32.4 million in 2018. Included in the 2018 net commission revenue were annual service commissions of \$14.5 million, an increase of 28% from \$11.4 million in 2017.

The Dealers ended the year with \$12.8 billion in AUA, a slight decrease from \$12.9 billion in 2017. While the Dealers enjoyed great success in attracting new independent financial advisors and financial service entities to our platform, with approximately \$370 million in net new AUA, the volatility seen in financial markets offset the effects of these net new AUA.

As referred to above, the conversion to a new technology platform for our mutual fund dealer this year, designed to improve our support to advisors, caused challenges in our operations. This project is strategically important, as the new platform is expected to provide improved operational effectiveness and provide a stronger platform for our advisors’ future growth. We are extremely grateful to our many loyal advisors who have continued to reward us with their confidence, through what has been a trying time for both them and Worldsource management. With the challenges of the conversion fading, we are now focused on: leveraging the capabilities of the new system to enhance our advisor experience; helping our existing advisors grow their AUA through practice management activities; and additional growth in our AUA through continued advisor recruitment.

Guardian continued to work closely with the Dealers in 2018 to develop quality investment solutions for our advisors. AUA placed by advisors in investment solutions managed by Guardian’s investment management businesses were \$722 million at year end, an 8.9% increase compared to the prior year. \$561 million of these assets have been placed with Guardian’s Private Wealth business; however, assets placed into Guardian mutual funds and separately managed account mandates have been growing at a faster pace, and there is now approximately \$161 million invested in these products.

# Management's Discussion and Analysis

In accordance with securities regulatory requirements, the management's discussion and analysis which follows for Guardian Capital Group Limited, its subsidiaries and other controlled entities ("Guardian") pertains to the year ended December 31, 2018, with comparatives for the year ended December 31, 2017. Readers are encouraged to refer to Guardian's Consolidated Financial Statements contained in the 2018 Annual Report. This discussion and analysis has been prepared as of February 21, 2019.

Additional information relating to Guardian and its business, including Guardian's Annual Information Form, is available on "SEDAR" at [www.sedar.com](http://www.sedar.com).

## Caution Concerning Forward-Looking Statements

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

By their nature, forward-looking statements involve risks and uncertainties. There is a risk that the expectations reflected in such forward-looking statements will not be achieved. Undue reliance should not be placed on these statements, as a number of factors could cause actual results to differ from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, and other factors.

## Overview of Guardian's Business

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer, and a securities dealer (together, the "Dealer"); 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, 2018, Guardian had \$27.0 billion of assets under management ("AUM") and \$17.4 billion of assets under administration ("AUA"). Included in the AUM figure above is \$4.0 billion (\$3.0 billion USD) managed by Alta Capital Management, LLC ("Alta"), a 70% owned Utah-based investment management subsidiary which was acquired by Guardian on January 2, 2018. In addition, Guardian has a diversified portfolio of securities, which includes its investment in Bank of Montreal ("BMO") shares, with a fair value of approximately \$627 million as at December 31, 2018.

## 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 earnings before interest, taxes, depreciation and amortization ("EBITDA"), EBITDA per share, adjusted cash flow from operations, adjusted cash flow from operations per share, shareholders 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 utilize these measures in their analysis of Guardian's results. On page 24 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

## 2018 Highlights

In 2018, Guardian continued to carry out its strategic plan, building on the investments made in prior years. We continued to focus on growing our non-domestic AUM, to allow us to diversify our revenue sources within the Investment Management Segment. The most significant investment made into this area during 2018 was the acquisition of a 70% interest in Alta on January 2, 2018, for a purchase price of \$45 million USD on closing, with additional contingent amounts of up to \$10 million USD payable in the four years following the closing date. The acquisition was debt-financed. Following the completion of this acquisition, we focused on integrating Alta's operations and infrastructure with our existing US distribution team. In addition, we expanded our investment vehicle lineup, including the launch of our first 40 Act Fund in the US, to enhance our distribution capabilities in this market.

The Fundamental Global Equity strategy of UK subsidiary, GuardCap Asset Management Limited, reached a milestone in 2018 by surpassing \$1 billion in AUM. We achieved this through an increased flow of assets into the Global Equities UCITS fund, including investments from new European institutional clients. We won our first sub-advisory mandate in Canada in June, 2018 and that fund has witnessed a steady flow of assets. We also won our first mandate from an Australian institutional superannuation client in 2018. The funding of this significant mandate was completed in early 2019.

Within the Financial Advisory Segment, a very successful recruitment campaign was completed in 2018. We invested in excess of \$26 million in recruitment of new advisors, with \$25 million pertaining to recruitment in our MGA business. The Dealer initiated its strategically important technology platform conversion during 2018. As a result, the business experienced some increase in expenses, including conversion-related expenses of approximately \$1.0 million.

Effective January 1, 2018, Guardian adopted a new accounting standard, International Financial Reporting Standard 9 – Financial Instruments (“IFRS 9”), on a retrospective basis. As described in Guardian’s previous disclosures, this new standard introduced significant volatility into Guardian’s net gains (losses) and therefore its net earnings (losses). In reviewing Guardian’s results, in addition to considering net earnings (losses), it may therefore be beneficial for readers to consider other measures, such as operating earnings and EBITDA, which provide views of Guardian’s results without the volatility introduced by the new standard. Prior period figures have been restated in the Management’s Discussion and Analysis to reflect the retrospective application of the new standard.

### Consolidated Financial Results

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

For the year ended December 31 (\$ in thousands, except per share amounts)	2018	Restated 2017	% change
Net revenue	\$ 171,513	\$ 151,238	13%
Expenses	125,126	103,069	21%
Operating earnings	46,387	48,169	-4%
Net gains (losses)	(55,652)	65,231	-185%
Earnings (losses) before income taxes	(9,265)	113,400	-108%
Income tax expense	4,342	15,086	-71%
Net earnings (losses)	\$ (13,607)	\$ 98,314	-114%
Attributable to shareholders			
Net earnings (losses)	\$ (16,952)	\$ 96,819	-118%
EBITDA	56,187	52,754	7%
Adjusted cash flow from operations	43,680	41,313	6%
Attributable to shareholders, per share, diluted			
Net earnings (losses)	\$ (0.63)	\$ 3.30	-119%
EBITDA	1.99	1.80	11%
Adjusted cash flow from operations	1.55	1.41	10%
As at December 31 (\$ in millions, except per share amounts)	2018	2017	% change
Shareholders' equity	\$ 599	\$ 634	-6%
Securities	627	652	-4%
Per share, diluted			
Shareholders' equity	\$ 21.57	\$ 21.88	-1%
Securities	22.58	22.49	0%
For the years ended December 31 (\$ in millions)	2018	2017	% change
Annual premiums on insurance policies sold	\$ 111	\$ 77	44%

Guardian’s consolidated operating earnings for the year ended December 31, 2018 were \$46.4 million, as compared to \$48.2 million for the year ended December 31, 2017, a 3.7% decrease.

The operating earnings from the Investment Management Segment were \$23.0 million in 2018, a 13% increase over the 2017 operating earnings of \$20.4 million. The increase is largely attributed to the contribution from Alta, which was acquired on January 2, 2018. This was partially offset by the decrease in the domestic business operating earnings during 2018. The domestic investment management business continued to weather the headwinds facing the industry, where allocations to Canadian equities continue to diminish. The resulting net redemptions from the Canadian equity asset class in 2018 contributed to reductions in net management fees and lower operating earnings in the domestic business.



The Financial Advisory Segment earned \$12.9 million in operating earnings in 2018, as compared to \$14.5 million in 2017. Although our revenues continued to grow in both the Dealer and the MGA businesses, the increase in expenses outpaced our revenues. The expenses in the Dealer business increased in the current year, largely due to the expenses related to the new technology platform, with conversion-related expenditures of \$1.0 million. The MGA business had another successful year in 2018, increasing operating earnings by \$0.4 million over 2017. This is significant because the first quarter of 2017 included spillover effects from significant volume increases in life insurance sales, driven by changes to income tax legislation. A combination of organic growth and a successful recruitment campaign to attract elite advisors to the group contributed to this growth.

The Corporate Activities and Investments Segment earned \$10.5 million in operating earnings in 2018, compared to \$13.2 million in 2017. The decrease in operating earnings was due to a combination of lower dividend income and higher expenses in 2018. The deconsolidation of the Global UCITS fund at the end of 2017 resulted in the dividend income earned in this fund no longer being included in Guardian's consolidated operating earnings. The increase in expenses in 2018 is largely attributable to the interest expense incurred on debt used to finance the acquisition of Alta in January, 2018.

The adoption of IFRS 9, as described above under 2018 Highlights, introduced significant volatility to our net gains/losses. In 2018, the decrease in fair market value of securities resulted in \$55.7 million in largely unrealized net losses being recorded, compared to \$65.2 million in net gains in 2017. The largest contributor to the net loss in 2018 was the unrealized decrease in fair value of the BMO shares. Subsequent to year-end, much of that unrealized loss has been regained, as the equities markets rebounded in 2019. This volatility is expected to continue in future periods under IFRS 9.

Lower income tax expense in 2018 was the result of lower operating earnings and significant net losses as described above, compared to higher operating income and net gains realized in 2017.

Net losses attributable to shareholders in 2018 were \$17.0 million, compared to \$96.8 million in net earnings attributable to shareholders 2017. The significant decrease was caused by the large swing in the net gains (losses) between 2017 and 2018, as described above.

EBITDA for the year ended December 31, 2018 were \$56.2 million, compared to \$52.8 million in 2017, a 7% increase. Adjusted cash flow from operations for the year amounted to \$43.7 million, compared to \$41.3 million in 2017, a 6% increase. The increases in both measures are due largely to EBITDA and cash flow contribution from Alta in 2018.

Per share EBITDA, and adjusted cash flow from operations, increased due largely to the contributions from Alta, and the benefits of the repurchase and cancellation of 1.1 million shares in 2018.

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

For the years ended December 31 (\$ in millions)	2018	2017
Assets under management, beginning of year	\$ 27,250	\$ 27,280
Alta acquisition	4,160	–
Net additions (reductions) from clients during year	(3,199)	(1,780)
Market appreciation (depreciation)	(1,249)	1,750
Assets under management, end of year	\$ 26,962	\$ 27,250
End of year amounts comprised of:		
Institutional	\$ 24,111	\$ 24,279
Private wealth and international private banking	2,851	2,971
Total Assets under management, end of year	\$ 26,962	\$ 27,250
Institutional AUM is comprised of:		
Canadian equities	\$ 9,122	\$ 12,246
Global equities	8,089	3,887
Fixed-Income	6,900	8,146
Total institutional AUM	\$ 24,111	\$ 24,279
Assets Under Administration	\$ 17,385	\$ 17,795

## 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. The investment management revenue discussions below do not include the affects of the inter-segment eliminations.

Guardian's total AUM were \$27.0 billion at December 31, 2018, a slight decrease from \$27.3 billion at December 31, 2017. As described in the 2018 Highlights above, the change in AUM can be attributed to the acquisition of Alta and the growth in our Fundamental Global Equity strategy, offset by an outflow of assets in our Canadian Equity strategies and the downturn in the domestic and global equities markets, especially in the fourth quarter of 2018.

Management fees, net of referral fees paid, were \$87.6 million for the year ended December 31, 2018, 23% higher than the \$71.4 million in fees generated in 2017. Institutional management fees were \$70.6 million in 2018, a 29% increase from 2017. This can be attributed largely to the acquisition of Alta, partially offset by the net outflows in Canadian Equity strategy assets during the year. Private Wealth and International Private Banking management fees, net of referral fees paid, increased by 5% during 2018, from \$16.5 million during 2017 to \$17.0 million during 2018, which is reflective of 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 2018 amounted to \$17.4 billion, 2% lower than the \$17.8 billion at the end of 2017. The decrease in AUA was caused largely by the decline in the global financial markets, especially in the fourth quarter of 2018, partially offset by the successful recruitment efforts and net new sales in 2018.

The Annual Premiums on Life Insurance Policies Sold ("Premiums Sold") in 2018 by the MGA subsidiary were \$111 million, compared to \$76.8 million in 2017. This growth in 2018 is even more significant when we consider the first quarter of 2017 included a significant increase in Premiums Sold, which was driven by changes in income tax legislation. The growth was due largely to the successful recruitment of advisors in 2018 with investments exceeding \$25 million. The Financial Advisory Commission revenues discussions that follow do not include the effects of the inter-segment eliminations.

Net commission revenue from the Financial Advisory Segment was \$47.8 million for the year ended December 31, 2018, an increase of 10% over the \$43.5 million earned in 2017. The Dealer net commission revenue increased to \$15.4 million from \$14.9 million in 2017. This increase was the result of organic growth and recruitments in the Dealer business. The MGA net commission revenue increased to \$32.4 million from \$28.6 million in 2017. The increase was due largely to the increase in continuing service commission and trailer commission revenues. The service commission revenue, which are earned on renewal of policies sold in prior years, rose to \$14.5 million in 2018 from \$11.4 million in 2017.

#### *Administrative Services Income*

Administrative services income amounted to \$14.1 million in 2018, compared to \$14.3 million in 2017. This revenue was comprised of \$7.8 million of registered plan and other fees earned in the Financial Advisory Segment, as compared to \$8.3 million in 2017, and \$6.3 million in fund administration, trust, corporate administration and other fees earned in the Investment Management Segment in 2018, as compared to \$6.0 million in 2017.

#### *Dividend and Interest Income*

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

For the years ended December 31 (\$ in thousands)	2018	2017
Bank of Montreal common shares	\$ 13,986	\$ 13,792
Other securities	5,373	7,585
Dividend income	19,359	21,377
Interest income	4,087	1,705
Total dividend and interest income	\$ 23,446	\$ 23,082

Dividend and interest income increased to \$23.4 million in 2018, an increase of \$0.3 million or 1% from the \$23.1 million in 2017. Interest income increased due to the \$10.0 million investment in term preferred shares made on January 2, 2018, and an increasing interest environment which resulted in improved margins earned on client cash balances by the Dealer subsidiaries. Dividends from other securities decreased, largely as a result of the deconsolidation of the Global Equity UCITS fund at the end of 2017, resulting in this dividend income no longer being included in Guardian's consolidated operating earnings. Dividends earned on Bank of Montreal shares increased only slightly, as the increase in dividends paid per share was offset by fewer shares being held by Guardian throughout 2018, compared to 2017.

## Expenses

Guardian's operating expenses, excluding commissions paid and referral fees, were \$125.1 million in 2018, compared with \$103.1 million in 2017, an increase of 21%. The increase in employee compensation and benefits and other expenses are related largely to the addition of Alta in 2018 and the increased expenditures in the Dealer business related to the new technology platform, including expenses of \$1 million associated with the platform conversion. The increase in amortization expense is related to the increased amortization resulting from the addition of intangible assets arising from the Alta acquisition and the significant recruitment completed in the Financial Advisory Segment. The increase in interest expense is due to the increase in debt in 2018 to finance the acquisition of Alta and the significant recruitments in the Financial Advisory Segment.

## Net Gains (Losses)

For the years ended December 31 (\$ in thousands)	2018	Restated 2017
Bank of Montreal common shares	\$ (42,476)	\$ 15,779
Other securities	(9,333)	48,070
Net gains (losses) on securities	(51,809)	63,849
Foreign exchange gains (losses)	(5,502)	542
Gains on disposition of intangible assets	1,207	840
Gain on expiration of contingent liability	452	—
Net gains (losses)	\$ (55,652)	\$ 65,231

The large swing in net gains (losses) in 2018 as compared to 2017 was due to the downturn in the global markets at the end of 2018, which resulted in largely unrealized losses related to our securities. There was also an increase in the net foreign exchange losses in 2018, compared to 2017, arising from the US dollar debt used to finance the acquisition of Alta.

## Liquidity and Capital Resources

The strength of Guardian's balance sheet has enabled Guardian to provide clients with a high level of comfort, 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, attract strong associates 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)	2018	2017
Securities, carried at fair value		
Proprietary investment strategies		
Short-term securities	\$ 2	\$ 9,810
Fixed-income securities	20,744	19,328
Canadian equities	13,159	21,819
Global equities	182,954	203,474
Real estate	19,560	13,545
	236,419	267,976
Bank of Montreal common shares	329,670	372,146
Other securities	51,131	12,054
	617,220	652,176
Security, carried at amortized cost	10,000	—
Securities	\$ 627,220	\$ 652,176
Total securities per share, diluted	\$ 22.58	\$ 22.49

Guardian's securities as at December 31, 2018 had a fair value of \$627 million, or \$22.58 per share, diluted, compared with \$652 million, or \$22.49 per share, diluted, as at December 31, 2017, as shown above. Reflecting this value, Guardian's shareholders' equity as at December 31, 2018 amounted to \$599 million, or \$21.57 per share, diluted, compared to \$634 million, or \$21.88 per share, diluted, as at December 31, 2017. Both of these measures decreased compared to the prior year, mainly due to the decrease in market value of securities, as the worldwide financial markets retreated in 2018.

In addition to its strong balance sheet, Guardian has, under various borrowing arrangements, total borrowing capacity of \$155 million. At December 31, 2018, the total bank borrowing amounted to \$138.9 million, as compared with \$55.9 million at December 31, 2017. The increased borrowing during 2018 relates to funds utilized to finance the Alta acquisition as well as to partially fund the recruitments in the MGA business during the year.

Guardian generated adjusted cash flow from operations of \$45.6 million during the year ended December 31, 2018, as compared to \$41.3 million in 2017. Guardian uses its adjusted cash flow from operations primarily to fund its working capital, pay its quarterly dividends, repurchase shares under its Normal Course Issuer Bid, repay debt where possible and for capital expenditures. 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 normalized levels of share buybacks.

In 2018, by utilizing its strong balance sheet and cash flows, Guardian returned \$39.3 million to the shareholders in the form of dividends and share repurchases and reinvested in its business by acquiring 70% of Alta with a payment of \$45 million USD on closing, and investing \$26 million in intangible assets relating to advisor recruitments in the Financial Advisory business.

### 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, 2018 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 138,902	\$ 138,902	\$ —	\$ —	\$ —
Client deposits	61,747	61,747	—	—	—
Payable to clients	56,147	56,147	—	—	—
Accounts payable and other	48,054	48,054	—	—	—
Other liabilities	25,650	—	6,644	19,006	—
Investment commitments	28,156	28,156	—	—	—
Operating lease obligations	15,990	2,623	5,137	4,334	3,896
Third party investor liabilities	852	852	—	—	—
<b>Total contractual obligations</b>	<b>\$ 375,498</b>	<b>\$ 336,481</b>	<b>\$ 11,781</b>	<b>\$ 23,340</b>	<b>\$ 3,896</b>

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 has two investment commitments. The first is a commitment to further invest \$17.8 million into a real estate limited partnership managed by a subsidiary, and the second is a commitment to invest an additional \$10.4 million in a private equity fund. Guardian will decide on the appropriate strategy for funding these commitments when called upon by the funds. In addition, included in the above table is the outstanding contingent payment of up to \$10 million USD relating to the Alta acquisition, which may become due over the four years following the January 2, 2018 closing date.

### Selected Annual Information

Years ended December 31 (\$ in thousands, except per share amounts)	2018	Restated 2017	Restated 2016
Net revenue	\$ 171,513	\$ 151,238	\$ 142,686
Net earnings (losses) attributable to shareholders	(16,952)	96,819	118,319
Per share			
Net earnings (losses) attributable to shareholders			
Basic	\$ (0.63)	\$ 3.49	\$ 4.16
Diluted	(0.63)	3.30	3.95
Dividends paid	0.475	0.385	0.330
<b>As at December 31 (\$ in thousands)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Total assets</b>	<b>\$ 988,868</b>	<b>\$ 912,484</b>	<b>\$ 982,262</b>

The increase in total assets in 2018 as compared to 2017 is attributable to increases in intangible assets and goodwill following the acquisition of Alta and the recruitment of a number of advisors in the MGA during the year. Offsetting this increase was a decrease in the securities balance as a result of a decrease in the market value of investments in 2018.

## Summary of Quarterly Results

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

As at (\$ in millions)	2018				Restated 2017			
	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31
Assets under management	\$ 26,962	\$ 29,185	\$ 29,731	\$ 29,457	\$ 27,250	\$ 26,335	\$ 26,379	\$ 26,967
Assets under administration	17,385	18,096	17,980	17,601	17,795	17,271	17,073	16,958
Quarters ended (\$ in thousands)								
Net revenue	44,300	42,773	42,924	41,516	39,097	36,315	37,208	38,618
Operating earnings	12,137	12,444	11,302	10,504	13,406	10,505	12,160	12,458
Net gains (losses)	(89,001)	28,481	20,800	(15,932)	38,186	4,068	(3,603)	25,871
Net earnings (losses)	(69,652)	35,079	26,245	(5,279)	44,466	12,555	7,493	33,800
Net earnings (losses) attributable to shareholders	(70,449)	34,320	25,385	(6,208)	43,982	12,310	7,242	33,285
Shareholders' equity	599,311	670,382	644,956	623,511	634,416	608,013	603,428	605,039
Per Class A and Common share (in \$)								
Net earnings (losses) attributable to shareholders								
Basic	\$ (2.63)	1.28	\$ 0.95	\$ (0.23)	\$ 1.59	\$ 0.44	\$ 0.26	\$ 1.21
Diluted	(2.63)	1.21	0.90	(0.23)	1.51	0.42	0.25	1.14
Shareholders' equity								
Basic	\$ 22.85	\$ 24.98	\$ 24.06	\$ 23.27	\$ 23.20	\$ 21.87	\$ 21.75	\$ 21.81
Diluted	21.57	23.57	22.74	21.98	21.88	20.67	20.54	20.58
Dividends paid	\$ 0.125	\$ 0.125	\$ 0.125	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.085

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 and other recurring commission revenues earned on mutual funds and segregated funds in the Financial Advisory Segment are highly correlated to the change in AUM and AUA, which can fluctuate with the global financial market. Partially offsetting this correlation is the continued growth in significance of insurance commissions earned by our MGA business, which 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. In the Corporate Activities and Investments 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 reoccurring influences described above, the net revenue increased in 2018, compared to 2017, due to the addition of Alta's revenue. The fourth quarter of 2018 was impacted by the decline in the global financial markets, with the consequential decreasing management fees and trailer and other recurring commission revenues. The first quarter of 2017 was 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. The adoption of IFRS 9 introduced significant volatility to net gains (losses) effective in 2018, with 2017 restated. The net gains (losses) recorded each period largely represent the changes in market value of Guardian's securities holdings, as global financial markets fluctuate. 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

The largest business segment at Guardian is investment management, in which clients look to Guardian to manage risks within their portfolios. Guardian applies many of the same risk management principles to its business as a whole. One of these principles is that risk can pose challenges, as well as provide opportunities, depending upon the effectiveness of the way in which it is managed. Readers are encouraged to refer to Note 22 of the Consolidated Financial Statements, contained in Guardian's 2018 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 management fees, which make up a significant part of our revenues, are generally based on market values. In the financial advisory business, market fluctuations can significantly impact the amount being invested by clients, thereby increasing or decreasing our commission revenues. We manage the risk of market fluctuations by having a diversified client base with different investment needs, and by having a variety of products and services, which may be attractive in different market environments and which have different correlations to equity, other financial markets and to each other. Guardian's securities holdings are managed independently of clients' assets, except for those of our assets that are invested in Guardian's investment funds.

### *Portfolio Value and Concentration Risk*

Guardian's securities are subject to the risk of price fluctuations. The potential impact of market fluctuations on the value of Guardian's securities is quantified in Note 22 of the Consolidated Financial Statements. Guardian manages this risk through professional in-house investment management expertise, which takes a disciplined approach to investment management. All securities are held by well-known independent custodians chosen by Guardian. As at December 31, 2018, Guardian holds \$330 million of Bank of Montreal shares (2017 - \$372 million), which represents 53% of Guardian's securities (2017 - 57%). Guardian has accepted this concentration risk, as the bank is a diversified company with a history of steady and growing dividend payments. Guardian has been reducing its concentrated exposure to the Bank of Montreal over several years, having sold 1.3 million shares, or 26% of its holdings therein, since the second quarter of 2013, and used the proceeds to support our business by investing in new products that are managed by our Investment Management business. The remainder of Guardian's security portfolio is more diversified, from both an asset class and a geographical perspective. At December 31, 2018, the corporate holding of securities consisted of 59% of Canadian equities (2017 - 62%), primarily consisting of Bank of Montreal shares, 31% of non-Canadian equities (2017 - 34%) and 10% of short term investments and fixed-income securities (2017 - 4%).

### *Foreign Currency Risk*

Guardian's investments in its foreign subsidiaries are subject to the risk of foreign currency exchange rate fluctuations. The effects of changes in foreign currency exchange rates on the values of these investments are not included in Net earnings (losses), but are recorded in the "Net change in foreign currency translation on foreign subsidiaries" in Guardian's Consolidated Statements of Operations and Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. With the acquisition of Alta in 2018, Guardian now also recognizes obligations to non-controlling interests on its balance sheet, which are denominated in US dollars. As these are transactions between equity interests, the changes in the value of the obligation, including changes resulting from foreign exchange rate fluctuations, are recorded directly in the Statements of Equity. This currency risk is managed in a manner similar to the investments in other foreign subsidiaries, in that they are not actively managed, due to the long-term nature of the investments, but are closely monitored by management. As Guardian continues to expand into foreign jurisdictions and the revenue and earnings sources grow and diversify into other currencies, the operating results can fluctuate with the changes in the foreign currency exchange rate compared to the Canadian dollar. This risk will continue to grow as Guardian increases the size and scope of its non-domestic operations. From time to time, Guardian may record certain foreign exchange gains (losses), such as on the current US Dollar borrowings used to finance the acquisition of Alta. This risk is offset by an offsetting, similar amount being recognized on the investment in Alta through Other comprehensive income, as discussed above. Guardian may also record gains (losses) on Canadian dollar cash balances held by foreign subsidiaries. These foreign exchange gains and losses result in similar offsetting Net gains (losses) being recorded in Other comprehensive income as discussed above. Readers are encouraged to refer to Note 22 in the Consolidated Financial Statements for further discussion and sensitivity analyses.

### *Credit Risk*

Guardian's credit risk is generally considered to be low. Because of the nature of Guardian's business, its receivables are mainly from large institutions, which are considered to pose a relatively low credit risk, or from individuals, 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 manager who, through diversification and credit quality reviews of the funds' investments, manages the funds' credit risk. The credit risk associated with the investment in amortized cost securities is managed by monitoring the issuer's operations through discussions with the issuer's management. From time to time, advisors in the Financial Advisory segment may owe advances received or amounts resulting from reversal of commissions to the Dealer or the MGA. The credit risk associated with these amounts is mitigated by management's review of the advisors' abilities to repay the advances or the potential commission reversals, particularly in the MGA business, before amounts are paid to the advisors.

### *Interest Rate Risk*

Guardian's most significant exposure to interest rate risk is through its bank loans and borrowings. The interest rates on these borrowings are short-term, and Guardian's interest expense and net earnings will fluctuate with the changes in short-term rates. Guardian manages interest rate risk in its international banking operations, through matching the interest rates of client deposit liabilities with the assets, which consist of interest-bearing deposits with banks or other similar interest-earning instruments. 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 \$155 million through three credit facilities, and by leveraging the support of its significant security portfolio. The maturities of Guardian's contractual commitments are outlined under "Contractual Commitments" in this MD&A. Management believes the combination of the cash flows from operations, the securities holdings and the borrowing facilities provides sufficient resources to manage Guardian's 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 risk is the risk that we will not perform as well as the market, our peers, or in line with our clients' expectations. The nature of this risk is both relative and absolute. We manage this risk by having a disciplined approach to investment management, and by ensuring that our compliance capabilities are strong. With respect to clients' expectations, we also seek to ensure that we are aware of those expectations, and that we properly communicate with our clients to develop, report on and comply with client mandates on a continuous basis.

### *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.

### *Key Personnel Risk*

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

### *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, in both the Investment Management Segment and the Financial Advisory Segment, will result in losses of revenue and earnings to Guardian. Guardian attempts to mitigate this risk by developing and maintaining strong client and advisor relationships, a competitive product line with competitive relative performance of its products, through the recruitment and retention of high-quality 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, the use of information technology can also introduce operational risk related to its use by employees, which may result in errors and lead to financial loss to Guardian. In addition, through the use of mobile devices, and the use of internet, such as emails and other online capabilities, Guardian is exposed to information security and other technology 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, judgements and assumptions which affect the reported amounts of assets, liabilities, contingencies, revenues and expenses. These estimates and judgements are listed in note 2(c) to Guardian's 2018 Consolidated Financial Statements. The most significant accounting estimates are related to the impairment assessment of goodwill and the determination of fair value of securities 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 2018 and 2017, 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 an estimated 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 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 5(b) to Guardian's 2018 Consolidated Financial Statements were determined 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.

Accounting for business combinations requires judgement to identify the assets acquired and liabilities assumed in a transaction. It also requires fair values to be estimated for these identified assets and liabilities. Guardian uses various assumptions and available information to determine these estimated fair values. Changes to these assumptions and available information would result in changes to these estimates.

### **Changes In Accounting Policies**

On January 1, 2018, Guardian adopted two new accounting standards, IFRS 9 – Financial Instruments (“IFRS 9”) and IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”). IFRS 9 had a significant impact on Guardian's results in 2018. The new standard eliminated the Available for Sale and Held for Trading classifications for financial instruments. Substantially all of Guardian's securities (including the Bank of Montreal shares) are now classified as Fair Value Through the Profit or Loss (“FVTPL”). All changes in fair values of FVTPL securities are recognized in Net gains (losses) in the Statements of Operations. Under the previous standard, any changes in the fair value of Available for Sale securities were recognized in Other comprehensive income. The fluctuations in the fair value of securities, including the Bank of Montreal shares, resulted in significant Net gains or losses being recognized each period in the Statements of operations. IFRS 9 is expected to continue to result in greater volatility in Net gains (losses), and therefore in Net earnings (losses) attributable to shareholders. The adoption of IFRS 15 had a modest impact on Guardian's results. The adoption of IFRS 9 and IFRS 15 is discussed further in Note 3 to Guardian's 2018 Consolidated Financial Statements.

### **Future Changes in Accounting Policies**

On January 13, 2016, the IASB issued IFRS 16 – Leases (“IFRS 16”), which will replace IAS 17 – Leases (“IAS 17”) effective for annual periods beginning on January 1, 2019. The standard provides a single lease accounting model for lessees, under which substantially all leases will be accounted for as asset acquisitions financed by lease obligations. The acquired lease asset will be amortized over its useful life, which will generally be the lease term. Lease payments will be accounted for as repayments of the lease obligation, and interest will be recorded on the obligation. This differs from IAS 17, under which most of Guardian's leases were not considered to be finance leases and did not result in the recognition of an asset or a lease obligation. Under IAS 17, Guardian's average lease payment was expensed on a straight-line basis over the term of the lease as part of other expenses.



IFRS 16 allows for implementation on a retrospective basis or a modified retrospective basis. The modified retrospective basis allows for certain practical expedients to facilitate transition. Guardian anticipates that it will implement IFRS 16 on a modified retrospective basis and will make use of certain practical expedients. As a result of implementing IFRS 16 on a modified retrospective basis, Guardian's current and future financial statements will not be entirely comparable.

Based on our evaluations to date, the adoption of IFRS 16 will result in increases in Guardian's assets, liabilities and amortization and interest expense and a decrease in other expenses. In addition, under IFRS 16, the expenses will be higher at the outset of the lease and decline over the lease term, whereas under IAS 17 the expenses remain unchanged over the term. The anticipated impact from the initial adoption of IFRS 16 on Guardian's December 31, 2019 financial statements is provided in Note 3 to Guardian's Consolidated Financial Statements.

We continue to work to finalize the opening adjustments required and the impact on the 2019 operating results and the actual impact of IFRS 16 may differ from the amounts noted above.

## 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 that are used in calculating net earnings attributable 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 attributable to non-controlling interests and the level of capital expenditures. The most comparable IFRS measure is "Net earnings (losses)", which is 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)	2018	Restated 2017
Net earnings (losses) as reported	\$ (13,607)	\$ 98,314
Add (deduct):		
Income tax expense	4,342	15,086
Net (gains) losses	55,652	(65,231)
Stock-based compensation	2,155	1,988
Interest expense	3,251	814
Amortization	10,259	4,213
Non-controlling interests	(5,865)	(2,430)
EBITDA	\$ 56,187	\$ 52,754

### *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 Flows. Adjusted cash flow from operations per share is calculated using the same average shares outstanding as are used in calculating net earnings attributable 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)	2018	2017
Net cash from operating activities, as reported	\$ 47,141	\$ 44,638
Add (deduct):		
Net change in non-cash working capital items	1,512	(1,427)
Non-controlling interests	(4,973)	(1,898)
Adjusted cash flow from operations	\$ 43,680	\$ 41,313

### *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, 2018 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, 2018, 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**

Globally, strong economic growth was evidenced at the start of 2018; however, over the course of the year, there were broad signs of deceleration. With the exception of the US and India, GDP growth rates and PMIs in most major economies remained positive, but decelerated throughout the year. This has been attributed partially to an aggressive US position on trade, particularly against China, which ended the year showing signs of a dramatic slowdown. The US took a combative stance on trade, and imposed tariffs on numerous trading partners, including Canada. Although trade relations were restored to a more friendly posture with Canada and Mexico with the signing of the CUSMA, otherwise known as USMCA, the US and China retaliated with escalating tariffs as the year progressed. Further contributing to the slowdown was the Federal Reserve (Fed) implementing four 0.25% rate hikes, increasing its benchmark interest rate to a mid-point of 2.375%. In December, as market volatility increased and signs of slowing growth became apparent, the Fed reduced its outlook for rate increases (the dot plot) in 2019 from three to two 0.25% hikes.

In 2018, the S&P/TSX Composite had a total return of -8.9%, while the S&P 500 had a total return of -4.4% (all figures are in local currencies). Globally, the developed markets had poor results, with nearly all generating negative returns during the year, and most underperforming the US S&P 500. This was the case for the four key developed nations: France, UK, Japan, and Germany. The emerging markets were similarly weak, but almost half were able to outperform the S&P 500. The BRIC markets generally performed well in 2018, with the exception of China. Russia, Brazil, and India all had positive equity returns, while China was down almost 20%.

As we have noted previously, a risk to our cautiously optimistic outlook was the deepening of the US-China tariff and trade war. This risk was realized, and impacted the markets in a serious way in Q4/2018. As we enter 2019, it remains all about the US-China trade war. If the current pause in tariff hostilities leads to an agreement, or substantial progress toward an agreement, we believe the markets can recover nicely. While tweets and data feed headlines can change the market narrative suddenly and frequently, we believe both countries have recognized the need for concluding an agreement, as economic growth does appear to be fading in the wake of this dispute.

Trade issues aside, we think that what is important for the markets at this time is the path in interest rates, both short rates and long rates, and how they relate to each other in the shape of the yield curve. Earnings look to be fine in the absence of a trade war and, helped by the fourth quarter's correction, valuations have definitely improved. The rising path in short rates may be moderated by the current trade tensions. Meanwhile, long rates have backed off from their highs. Both of these factors appear positive for stocks, as long as the economy is not heading into recession. There are no reasons for the economy to drift into recession, short of tighter monetary policy or a worsening trade war. The yield curve, however, is a somewhat more problematic indicator. There is minimal difference in the curve between the 2-year and 5-year treasury yields, and the difference between the 2-year and 10-year is thin, at 16 bps. These are worrisome trends for many market watchers. However, our past observations are that the 3-month to 10-year yield curve is more relevant for forecasting a recession; for now, this is modestly steeper, but is also thin at only 27 bps. We note that the lead time to a recession from the point of inversion can be long, and markets often continue to rise before entering a bear market. On balance, apart from trade concerns, we believe it will still take higher long rates, a negative yield curve, and/or a more expensive stock market to end this bull market

Guardian has historically been highly levered to Canadian equities in its client assets 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 dominant. We remain very committed to the belief that there are still opportunities to succeed in a variety of client segments in Canada. While demand for Canadian assets has been muted during the current cycle, as opposed to the demand resulting from the massive commodity cycle from 2002 to 2008, history has shown us that positive sentiment toward Canada will return as it always has through decades of cyclicalities. We are seeding new Canadian investment solutions and continuing to support and defend our existing domestic offerings, with the expectation that when demand for Canadian products improves, we will be well-positioned to benefit.

In the meantime, we have the benefit of a growing stable of non-Canadian products with excellent long-term results, which are demonstrating the potential to be meaningful asset growth opportunities at much improved margins. At GuardCap, our global investment team in London, several years of top decile performance, and an ever-growing number of expressions of interest in our global high-conviction equity strategy, positions us ever closer to an inflection point where meaningful growth in non-Canadian AUM is a real possibility. In fact, in the six weeks since the end of 2018, the AUM for this strategy has more than doubled to greater than \$2 billion.

In the United States, Alta, our 70%-owned US equity investment management firm, has been integrated with great cooperation and success, affirming our belief that their culture was very agreeable to our Group. One year since the purchase transaction, their clients demonstrate their approval by remaining positive supporters of the firm. Recently, we have launched a US-based mutual fund managed by Alta, with an initial target of serving the many financial advisors that already use Alta for separately managed accounts on the various US broker-dealer platforms. The intention is to continue our efforts to cross-promote our various investment capabilities throughout the many geographies in which we now have a foothold, including adding Guardian-managed solutions through Alta-led relationships with broker-dealers, and similarly promoting Alta's US equity capabilities through our UCITS and Canadian distribution channels. Our long-term commitment and patience will be critical to building a successfully-integrated firm that leverages the strengths of our expansive geographic and client-segment opportunities, especially in the much-coveted US market.

Guardian's Financial Advisory subsidiary, Worldsource, has become a meaningful generator of revenue and operating earnings for Guardian. Worldsource's MGA unit continues to demonstrate meaningful year-over-year growth, and we expect this to continue over the foreseeable future. In 2018, Worldsource Financial Management, the mutual fund distribution arm, worked through a conversion to a new technology systems platform. Unfortunately, and not uncommon, the conversion process has proven more challenging and costly than anticipated by management. At this point, we are less concerned about the financial resources required to improve the current environment for the advisors dependent and loyal to our platform, than with the timely achievement of a "business-as-usual" environment for our dealership. Management cautiously believes that significant operational progress was made over the course of the year, and that 2019 will more accurately reflect an improved financial performance for the segment. As we achieve improved service levels for our current advisors, we expect to become more aggressive in our recruiting efforts, in order to grow revenues and profits at this entity.

A distinguishing strength for Guardian is the ability to utilize its significant financial resources to consistently seed new strategies with meaningful sums, demonstrating our conviction better than any models might attempt to do. Substantive seed capital for strategies and new pooled vehicles make our track records more meaningful and aid in our ability to accelerate the commitments from third-party investors. We have proven this to be a key differentiator for our investment management growth plans and will continue to do so across our many talented investment management teams. We will also continue to look at complementing organic capital allocation decisions with opportunities to allocate capital for growth through acquisitions. While much of our focus in 2018 was on implementing our strategy with respect to Alta, we continued to investigate a number of acquisition opportunities, and expect this to continue into 2019. We note that over the past year, valuation expectations for private firms seemingly are at significantly higher levels of multiples than comparable public firms. We have observed this in both the asset management and the MGA segments, and speculate that there are several reasons for this anomaly, including the following: 1) there might be strategic drivers for some acquirers; 2) unprecedented numbers of private equity financial sponsors are looking to invest their cash piles raised; and 3) companies who are finding it challenging to create their own organic growth are desperately willing to pay up to acquire growth. In this environment, it is important for us to remain financially disciplined and not be carried away with auction-like scenarios. We will continue to work on the many organic growth opportunities we see across our firm, and engage in acquisition opportunities only if valuations are within reason.

## Ten Year Review

Notes (d), (e)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	
(\$ in millions)											
Assets under management	\$ 26,962	\$ 27,250	\$ 27,280	\$ 24,278	\$ 24,968	\$ 22,228	\$ 18,832	\$ 15,928	\$ 16,266	\$ 13,986	
Assets under administration	17,385	17,795	16,489	14,943	13,126	11,559	9,918	8,654	7,783	7,074	
(\$ in thousands)											
Net revenue	\$171,513	\$151,238	\$142,686	\$132,911	\$119,275	\$101,278	\$ 86,360	\$ 73,693	\$ 64,928	\$ 61,147	
Expenses <sup>(a)</sup>	125,126	103,069	98,019	89,913	81,134	74,347	66,222	56,560	51,389	52,419	
Operating earnings	46,387	48,169	44,667	42,998	38,141	26,931	20,138	17,133	13,539	8,728	
Net gains (losses)	(55,652)	65,231	94,525	(19,414)	55,283	58,446	33,825	(17,415)	25,878	1,217	
Net earnings (losses) attributable to shareholders	(16,952)	96,819	118,319	16,903	78,354	74,971	46,471 <sup>(c)</sup>	(623)	40,782	14,274 <sup>(b)</sup>	
Shareholders' equity	599,311	634,416	580,177	504,255	488,835	414,985	353,756	322,618	331,856	317,784	
Securities	627,220	652,176	620,218	539,920	525,352	449,179	379,956	364,182	383,604	362,512	
(In dollars)											
Per common and Class A share:											
Net earnings attributable to Shareholders											
Basic	\$ (0.63)	\$ 3.49	\$ 4.16	\$ 0.57	\$ 2.60	\$ 2.46	\$ 1.48 <sup>(c)</sup>	\$ (0.02)	\$ 1.24	\$ 0.41 <sup>(b)</sup>	
Diluted	(0.63)	3.30	3.95	0.56	2.50	2.39	1.45 <sup>(c)</sup>	(0.02)	1.21	0.41 <sup>(b)</sup>	
Shareholders' equity											
Basic	22.85	23.20	20.75	17.37	16.33	13.68	11.44	10.12	10.16	9.37	
Diluted	21.57	21.88	19.62	16.55	15.62	13.17	11.16	9.90	10.01	9.19	
Dividends paid	0.475	0.385	0.330	0.290	0.240	0.300	0.170	0.160	0.150	0.150	
Share prices:											
Common	high	27.00	29.50	25.98	24.61	21.45	18.00	11.65	12.75	9.75	9.97
	low	20.40	23.41	16.20	16.55	15.30	11.50	9.41	9.49	7.90	4.65
Class A	high	27.05	29.00	25.10	19.25	18.85	16.82	10.55	11.63	9.00	8.25
	low	20.05	23.45	15.58	15.50	15.10	10.40	9.00	8.70	7.35	3.00
(In thousands)											
Year end common and Class A shares outstanding											
Basic	26,232	27,345	27,963	29,029	29,940	30,333	30,917	31,890	32,652	33,932	
Diluted	27,782	29,001	29,576	30,472	31,300	31,510	31,696	32,604	33,162	34,563	

### NOTES

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

(b) Net earnings attributable 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 attributable 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.

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

(e) Results in 2010 and subsequent years have been restated to include impact of IFRS 9 adjustments.

## *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 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 35 to 40. 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 21, 2019

# Independent Auditors' Report

## To the Shareholders of Guardian Capital Group Limited

### Opinion

We have audited the consolidated financial statements of Guardian Capital Group Limited (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of equity for the years then ended
- the consolidated statements of cash flow for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “**Auditors’ Responsibilities for the Audit of the Financial Statements**” section of our auditors’ report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in a document entitled “2018 Annual Report”

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions and the “2018 Annual Report” as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The logo for KPMG LLP, featuring the letters 'KPMG' in a blue, stylized font with a blue underline, followed by 'LLP' in a smaller, blue, sans-serif font.

Chartered Professional Accountants, Licensed Public Accountants.

The engagement partner on the audit resulting in this auditors' report is Ziad Said

February 21, 2019

Toronto, Canada

## Consolidated Balance Sheets

As at December 31 (\$ in thousands)	2018	Restated (note 3a) 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 32,362	\$ 48,887
Interest-bearing deposits with banks	61,730	52,637
Accounts receivable and other	47,113	39,087
Receivables from clients and broker	57,712	63,366
Securities backing third party investor liabilities (note 4)	852	5,688
	<b>199,769</b>	<b>209,665</b>
<b>Securities (note 5)</b>	<b>627,220</b>	<b>652,176</b>
<b>Other assets</b>		
Deferred tax assets (note 13c)	1,469	1,557
Intangible assets (note 6)	120,480	29,575
Equipment (note 7)	5,170	4,497
Goodwill (note 8)	34,760	15,014
	<b>161,879</b>	<b>50,643</b>
<b>Total assets</b>	<b>\$ 988,868</b>	<b>\$ 912,484</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loans and borrowings (note 9)	\$ 138,902	\$ 55,859
Third party investor liabilities (note 4)	852	5,688
Client deposits	61,747	52,653
Accounts payable and other	47,449	41,011
Income taxes payable	605	1,333
Payable to clients	56,147	63,366
	<b>305,702</b>	<b>219,910</b>
Other liabilities (note 10)	25,650	—
Deferred tax liabilities (note 13c)	45,537	51,370
<b>Total liabilities</b>	<b>376,889</b>	<b>271,280</b>
<b>Equity</b>		
<b>Shareholders' equity</b>		
Capital stock (notes 14a and 14b)	19,060	19,871
Treasury stock (note 15a)	(25,235)	(23,764)
Contributed surplus	17,600	15,882
Retained earnings	560,479	617,179
Accumulated other comprehensive income	27,407	5,248
	<b>599,311</b>	<b>634,416</b>
<b>Other equity interests</b>	<b>12,668</b>	<b>6,788</b>
<b>Total equity</b>	<b>611,979</b>	<b>641,204</b>
<b>Total liabilities and equity</b>	<b>\$ 988,868</b>	<b>\$ 912,484</b>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Barry J. Myers,  
Director



George Mavroudis,  
Director



## Consolidated Statements of Operations and Comprehensive Income

For the years ended December 31 (\$ in thousands, except per share amounts)	2018	Restated (note 3a) 2017
<b>Revenue</b>		
Commission revenue, gross	\$ 142,990	\$ 134,838
Commissions paid to advisors	(97,393)	(92,838)
	<b>45,597</b>	<b>42,000</b>
Management fee, gross	94,585	75,925
Fees paid to referring agents	(6,235)	(4,107)
	<b>88,350</b>	<b>71,818</b>
Administrative services income	14,120	14,338
Dividend and interest income (note 16)	23,446	23,082
<b>Net revenue</b>	<b>171,513</b>	<b>151,238</b>
<b>Expenses</b>		
Employee compensation and benefits (note 17)	73,266	63,397
Amortization	10,259	4,213
Interest	3,251	814
Other expenses	38,350	34,645
	<b>125,126</b>	<b>103,069</b>
<b>Operating earnings</b>	<b>46,387</b>	<b>48,169</b>
Net gains (losses) (note 18)	(55,652)	65,231
Earnings (losses) before income taxes	(9,265)	113,400
Income tax expense (notes 13a and 13b)	4,342	15,086
<b>Net earnings (losses)</b>	<b>(13,607)</b>	<b>98,314</b>
<b>Other comprehensive income (loss)</b>		
Net change in foreign currency translation on foreign subsidiaries	24,211	(16,772)
<b>Comprehensive income</b>	<b>\$ 10,604</b>	<b>\$ 81,542</b>
Net earnings (losses) attributable to:		
Shareholders	\$ (16,952)	\$ 96,819
Non-controlling interests	3,345	1,495
<b>Net earnings</b>	<b>\$ (13,607)</b>	<b>\$ 98,314</b>
Net earnings (losses) attributable to shareholders per Class A and Common share (note 19):		
Basic	\$ (0.63)	\$ 3.49
Diluted	(0.63)	3.30
Comprehensive income attributable to:		
Shareholders	\$ 5,207	\$ 80,047
Non-controlling interests	5,397	1,495
<b>Comprehensive income</b>	<b>\$ 10,604</b>	<b>\$ 81,542</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Equity

For the years ended December 31 (\$ in thousands)	2018	Restated (note 3a) 2017
<b>Total equity, beginning of year</b>	<b>\$ 641,204</b>	<b>\$ 585,470</b>
<b>Shareholders' equity, beginning of year</b>	<b>634,416</b>	<b>580,177</b>
<b>Capital stock, beginning of year</b>	<b>19,871</b>	<b>20,268</b>
Acquired and cancelled (note 14c)	<b>(811)</b>	<b>(397)</b>
Capital stock, end of year	<b>19,060</b>	<b>19,871</b>
<b>Treasury stock, beginning of year</b>	<b>(23,764)</b>	<b>(22,342)</b>
Acquired (note 15a)	<b>(2,255)</b>	<b>(2,300)</b>
Disposed of (note 15a)	<b>784</b>	<b>878</b>
Treasury stock, end of year	<b>(25,235)</b>	<b>(23,764)</b>
<b>Contributed surplus, beginning of year</b>	<b>15,882</b>	<b>13,972</b>
Stock-based compensation expense	<b>2,155</b>	<b>1,988</b>
Redemptions of equity-based entitlements	<b>(437)</b>	<b>(78)</b>
Contributed surplus, end of year	<b>17,600</b>	<b>15,882</b>
<b>Retained earnings, beginning of year</b>	<b>617,179</b>	<b>546,259</b>
Net earnings (losses)	<b>(16,952)</b>	<b>96,819</b>
Dividends declared and paid (note 14d)	<b>(13,284)</b>	<b>(11,100)</b>
Capital stock acquired and cancelled (note 14c)	<b>(25,221)</b>	<b>(14,809)</b>
Acquisition of non-controlling interests (note 25)	<b>(1,243)</b>	<b>–</b>
Net gain on treasury stock	<b>–</b>	<b>10</b>
Retained earnings, end of year	<b>560,479</b>	<b>617,179</b>
<b>Accumulated other comprehensive income, beginning of year</b>	<b>5,248</b>	<b>22,020</b>
Other comprehensive income (loss)	<b>22,159</b>	<b>(16,772)</b>
Accumulated other comprehensive income, end of year	<b>27,407</b>	<b>5,248</b>
<b>Shareholders' equity, end of year</b>	<b>599,311</b>	<b>634,416</b>
<b>Other equity interests, beginning of year</b>	<b>6,788</b>	<b>5,293</b>
<b>Non-controlling interests, beginning of year</b>	<b>6,788</b>	<b>5,293</b>
Net earnings	<b>3,345</b>	<b>1,495</b>
Other comprehensive income	<b>2,052</b>	<b>–</b>
Acquisition of subsidiary (note 26)	<b>22,656</b>	<b>–</b>
Dividends declared and paid	<b>(2,528)</b>	<b>–</b>
Acquisition of non-controlling interests (note 25)	<b>(639)</b>	<b>–</b>
Non-controlling interests, end of year	<b>31,674</b>	<b>6,788</b>
<b>Obligations to non-controlling interests, beginning of year</b>	<b>–</b>	<b>–</b>
Acquisition of subsidiary (note 26)	<b>(14,404)</b>	<b>–</b>
Change during year	<b>(4,602)</b>	<b>–</b>
Obligations to non-controlling interests, end of year	<b>(19,006)</b>	<b>–</b>
<b>Other equity interests, end of year</b>	<b>12,668</b>	<b>6,788</b>
<b>Total equity, end of year</b>	<b>\$ 611,979</b>	<b>\$ 641,204</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flow

For the years ended December 31 (\$ in thousands)	2018	Restated (note 3a) 2017
<b>Operating activities</b>		
Net earnings (losses)	\$ (13,607)	\$ 98,314
Adjustments for:		
Income taxes (paid)	(10,323)	(11,190)
Income tax expense	4,342	15,086
Net (gains) losses	55,652	(65,231)
Amortization of intangible assets	9,265	3,428
Amortization of equipment	994	785
Stock-based compensation	2,155	1,988
Other non-cash expenses	175	31
	<b>48,653</b>	<b>43,211</b>
Net change in non-cash working capital items (note 21)	(1,512)	1,427
Net cash from operating activities	<b>47,141</b>	<b>44,638</b>
<b>Investing activities</b>		
Net (acquisition) disposition of securities	(10,469)	16,609
Income taxes (paid)	(2,177)	(11,410)
Net (acquisition) of securities backing third party investor liabilities	(3,962)	(114,831)
Acquisition of intangible assets	(28,823)	(4,521)
Acquisition of equipment	(1,615)	(1,360)
Disposition of intangible assets	2,227	1,694
Acquisition of subsidiary	(56,327)	425
Net cash used in investing activities	<b>(101,146)</b>	<b>(113,394)</b>
<b>Financing activities</b>		
Dividends paid to shareholders	(13,284)	(11,100)
Dividends paid to non-controlling interests	(2,528)	-
Acquisition and cancellation of capital stock	(26,032)	(15,206)
Acquisition of treasury stock	(2,255)	(2,300)
Disposition of treasury stock	784	888
Net proceeds from (repayment of) bank loans and bankers' acceptances	88,717	(24,300)
Net funds from third party investors in consolidated mutual funds	3,962	114,831
Acquisition of non-controlling interests	(1,882)	-
Net cash from financing activities	<b>47,482</b>	<b>62,813</b>
<b>Foreign exchange</b>		
Net effect of foreign exchange rate changes on cash balances	572	(639)
Net change in net cash	(5,951)	(6,582)
Net cash, beginning of year	31,128	37,710
Net cash, end of year	\$ 25,177	\$ 31,128
Net cash represented by:		
Cash	\$ 32,362	\$ 48,887
Bank indebtedness	(7,185)	(17,759)
	<b>\$ 25,177</b>	<b>\$ 31,128</b>

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 21, 2019

### (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 2017 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 estimates and judgments are applied are those which relate to the:

- (i) Determination of whether a non-controlling interest in a subsidiary represents an equity interest;
- (ii) Determination of the subsequent accounting for certain transaction with non-controlling interests;
- (iii) Valuation of certain assets and liabilities that do not have quoted market prices including those acquired or incurred upon a business acquisition;
- (iv) Assessment of goodwill and intangible assets for impairments;
- (v) Determination of when control of another entity exists;
- (vi) Assessment of provisions; and
- (vii) 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) Non-controlling interests of a subsidiary

To the extent that they represent a residual interest in the Company’s assets, non-controlling interests (“NCI”) in subsidiaries are shown as a component of the equity section of the consolidated balance sheet. NCIs in a subsidiary which do not represent a residual interest in the Company’s assets are shown as a component of the Company’s liabilities.

#### (iii) Changes in the ownership of a subsidiary

Transactions with and obligations to holders of NCIs, which are an equity interest in the Company, pertaining to the transfer of ownership interests in a subsidiary and which do not result in a loss of control are recorded in equity in their entirety.

(iv) Transactions eliminated on consolidation

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

**(e) 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 and measured in foreign currencies. For these subsidiaries 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 translation of balance sheets and net earnings of the Company's foreign operations are recorded as a foreign currency translation adjustment in other comprehensive income, and the cumulative balance is included in accumulated other comprehensive income in the shareholders' equity section of the consolidated balance sheet.

**(f) Financial instruments – financial assets**

(i) Recognition and initial measurement

The Company recognizes a financial asset when the Company becomes party to the contractual provisions of the instrument. All financial assets are measured at fair value upon recognition.

(ii) Classification and subsequent measurement

The classification of the Company's financial assets is based on the business model for managing the assets and their contractual characteristics. Financial assets are classified and subsequently measured as follows:

- a. Amortized cost. Financial assets are measured at amortized cost when they are held in order collect contractual cash flows and whose terms give rise to cash flows that are solely payments of principal and interest. The Company's financial assets classified as amortized cost includes interest bearing deposits with banks, accounts receivable, loans receivable, receivables from clients and brokers and certain securities.
- b. Fair value through other comprehensive income ("FVOCI"). Financial assets measured at FVOCI when they are held in order collect contractual cash flows and for periodic sales and whose terms give rise to cash flows that are solely payments of principal and interest. FVOCI may also include certain equity instruments, if the Company has irrevocably designated them as FVOCI on initial recognition. The Company has no assets in this category.
- c. Fair value through profit or loss ("FVTPL"). All other financial assets and assets which have been designated FVTPL are included in this classification. The Company may designate assets which are amortized cost or FVOCI as FVTPL in order to provide more relevant information by significantly reducing a mismatch from measuring assets or liabilities on different basis. This designation which is made on initial recognition is irrevocable. The Company's financial assets classified as FVTPL includes securities backing third party liabilities and substantially all of its securities portfolio.

(iii) Derecognition

The Company derecognizes a financial asset when the contractual rights of the instrument expire or the Company substantially transfers all risks and rewards of ownership to a third party.

(iv) Impairment

The Company provides for credit losses on financial assets classified as amortized cost. If there has not been a significant increase or there has been a significant decrease in credit risk since initial recognition or the prior year, the Company provides for credit losses which are expected over the next 12 months. If there has been a significant increase in credit risk, the Company provides for the expected lifetime credit losses.

**(g) Financial instruments – financial liabilities**

(i) Recognition and initial measurement

The Company recognizes a financial liabilities when the Company becomes party to the contractual provisions of the instrument. All financial liabilities are measured at fair value upon recognition.

(ii) Classification and subsequent measurement

The Company's financial liabilities are classified and subsequently measured as follows:

- a. Amortized cost. Generally all financial liabilities are included in this classification. The Company's financial liabilities included in this classification are bank loans, client deposits, accounts and other payables and payable to clients.
- b. Fair value through profit or loss ("FVTPL"). Financial liabilities included in this classification are derivative liabilities, contingent consideration recognized in a business combination and liabilities which have been designated FVTPL. The Company may designate liabilities which are amortized cost as FVTPL in order to provide more relevant information by significantly reducing a mismatch from measuring assets or liabilities on different basis. This designation which is made on initial recognition is irrevocable. The Company's financial liabilities included in this classification are securities backing third party liabilities, (designated), and certain other liabilities.

(iii) Derecognition

The Company derecognizes a financial liability when the contractual obligation is discharged, cancelled or expires.

**(h) Offsetting financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount reported in the balance sheets only 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.

**(i) Fair value hierarchy**

Financial instruments and other assets that are 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:

- (i) Level 1 – Quoted market prices: financial instruments with quoted prices for identical instruments in active markets.
- (ii) 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.
- (iii) Level 3 – Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

**(j) Intangible assets**

Intangible assets include both intangible assets and contract costs. Intangible assets include advisor recruitment and management contracts and computer software. Advisor recruitment pertains to the costs associated with the recruitment of new advisors and branches, primarily in the Company's financial advisory segment, and management contracts pertain to costs associated with acquired investment management contracts in the Company's investment management segment.

Contract costs represent the incremental costs, such as certain sales commissions paid to staff and success fees paid to third party introducers, incurred in successfully obtaining new business with customers, primarily in the Company's investment management segment. Prior to the adoption of IFRS 15 – Revenue from Contracts with Customers, these costs were expensed as incurred.

Intangible assets and contract costs are carried at cost less accumulated amortization and accumulated impairment losses. They are amortized over their estimated useful lives, as outlined below:

- (i) Advisor recruitment and management contracts – They are amortized on a straight-line basis over a number of years, ranging from three to fifteen years;
- (ii) Computer software – The initial cost of the main computer processing systems are amortized on a straight-line basis 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) Contract costs – They are amortized over periods ranging from ten to 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.

**(k) 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.

**(l) 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.

**(m) 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 net earnings 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.

**(n) 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.

**(o) Treasury stock**

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

**(p) Revenue from customers**

Revenue from customers is recognized as the Company performs its service obligations to the customers. The major types revenue earned from customers and the associated accounting policies adopted by the Company are as follows:

- (i) Gross commission revenue earned and commissions paid to advisors. Gross commissions include commissions on security transactions, trailing commission and insurance commissions. Security transactions are fees charged for the buying and selling of securities on behalf of clients. These fees are recorded on a trade date basis. Trailing commissions are fees earned from investment management companies and are generally calculated based on the fair value of client asset placed with an investment management company. These fees are recognized over time during which the client assets have been placed. Insurance commissions are fees earned for the placing and renewal of life and other insurance policies with insurance carriers. These fees are recorded when the carrier provides confirmation of placement or renewal of the policies. Commissions paid to advisors, an expense, are commission paid to advisors, usually on security transactions and trailing commissions and are generally calculated as a percentage of the gross commission earned and these are recognized in a manner consistent with the underlying transaction which gives rise to the commission payment. As these expenses are highly correlated with the commissions the Company presents the expense as a deduction from the gross commission on the face of the Statement of Operations.
- (ii) Management fees – These include fees the Company earns for providing investment management services to clients. The fees are generally calculated based on the fair value of the assets managed, in accordance with the agreements with the clients. The fees are earned and recognized over the time during which the assets are managed 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 recognized when the services have been provided, the amount of the fees can be reliably measured, and it is highly probable that the fees will be received, which is usually at the end of the performance period. Fees paid to referring agents, an expense, are fees paid to third parties that place their clients funds into investment products which are managed by the Company, are generally calculated based on the fair value of the assets placed and are recognized in a manner consistent with the related revenue. As these expenses are highly correlated with the management fees the Company presents the expense as a deduction from the gross management fees on the face of the Statement of Operations.
- (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 over the period the service is performed, based on agreements with the clients or advisors.

**(q) Dividend and interest income**

Dividend and interest income is recorded as follows:

- (i) Dividends are recognized when the Company's right to receive payment is established.
- (ii) Interest is recorded as earned over the period of time during which the interest-paying investment is held, on an effective interest rate method.

**(r) 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. Should they qualify, certain bonuses may be accounted for in accordance with the policy on contract costs, (see Note 2(j) Intangible assets).

**(s) 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.

**(t) Interest expense**

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

**(u) 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.

**(v) Net gains or losses**

Net gains and losses, which are recognized on a trade date basis, include all changes in fair value of financial instruments classified as FVTPL which are due to changes in market prices, changes in the value of currency denominated monetary items due to changes in exchange rates, and on the disposal or impairment of other assets.

**(w) Income tax**

Income tax on net earnings for the year comprises current tax and deferred tax. Income tax is recognized in net earnings, 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.

**(x) 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.

**(y) 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.

**(z) Fiduciary assets and liabilities**

Certain of the Company's subsidiaries hold assets or liabilities on a fiduciary basis on behalf of clients. In providing these services, those assets and liabilities and the income and expenses associated with them are excluded from these consolidated financial statements.

**3. Changes in accounting policies**

A number of new standards, and amendments have been issued by the IASB, which are effective for current and future periods. The following is a description of these new standards and amendments and the impact on the Company's consolidated financial statements.

**(a) Current changes in accounting policies**

**Financial instruments**

On July 24, 2014, the IASB issued the final version of IFRS 9 – Financial Instruments (“IFRS 9”), which replaces IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”), with a more simplified guidance on the classification and measurement of financial instruments. The Company adopted IFRS 9 on January 1, 2018 and has elected to apply it on a retrospective basis, with restatement of comparative amounts and balances. A description of the Company's new accounting policies for the new standard is included under notes 2.(f) and 2.(g).

In applying the new standard, there are no changes to how the carrying values of the Company's financial instruments are determined. However, the recording of changes in fair values of certain financial instruments has changed. On transition, the Company's securities, previously classified as Available for Sale (“AFS”) and Held for Trading (“HFT”), were reclassified as Fair Value Through the Profit or Loss (“FVTPL”). As the AFS classification was eliminated upon transition, changes in fair value of those securities and related taxes no longer flow through other comprehensive income but rather through net earnings.

The implementation of IFRS 9 also resulted in the transfer of accumulated unrealized gains on AFS securities and related taxes from accumulated other comprehensive income to retained earnings.

The following tables summarize the effects of the adoption of IFRS 9 on the Company's consolidated financial statements. The 2017 figures below reflect the adjustments from the previously reported balances, under the previous standard. The 2018 figures reflect the differences between the current balances under IFRS 9, compared with what the balances would have been under the previous standard.

As at (\$ in thousands)	December 31, 2018	December 31, 2017	January 1, 2017
Increase (decrease) in the reported amounts under IFRS 9 compared to IAS 39:			
Retained earnings	\$ 183,475	\$ 221,717	\$ 218,590
Accumulated other comprehensive income	(183,475)	(221,717)	(218,590)
Shareholders' equity	\$ –	\$ –	\$ –

For the periods ended December 31 (\$ in thousands)	2018	2017
Increase (decrease) in the reported amounts under IFRS 9 compared to IAS 39:		
Net gains (losses)	\$ (42,972)	\$ 2,697
Earnings before income taxes	(42,972)	2,697
Income tax expense	(4,730)	(430)
Net earnings	(38,242)	3,127
Net earnings attributable to shareholders	(38,242)	3,127
Other comprehensive income	38,242	(3,127)
Comprehensive income	–	–
Comprehensive income attributable to shareholders	–	–



IFRS 9 also introduced two other major classifications of financial instruments: Amortized Cost; and Fair Value Through Other Comprehensive Income. These classifications are largely limited to investments in debt instruments and are further limited by the contractual terms of the instrument and the business model used to manage the instrument. During the current year, the Company invested in a security (Note 5) which met the criteria to be classified as Amortized Cost and, as a result, it will be measured at amortized cost using the effective interest rate method.

#### Revenue from contracts with customers

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 earned from contracts with customers. 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. A description of the Company’s revised accounting policies for the new standard is included under the Significant Accounting Policies notes under revenue from customers and intangible assets.

The Company adopted IFRS 15 on January 1, 2018 and elected to apply the standard, using the cumulative effect method with no restatement of the comparative periods.

In applying the new standard, there was no impact on the manner in which the Company recognizes revenue. However, the incremental costs incurred in securing a new revenue stream (“Contract Costs”) will result in the recognition of an asset and a liability on commencement of the revenue stream. The amortization period for Contract Costs will include the initial term of a contract and all anticipated renewal periods. The Company has estimated that this amortization period will be 10 to 15 years. Under the previous standard, these Contract Costs, mainly consisted of variable compensation costs to employees, were expensed and paid over the first year of a new revenue stream. The Company anticipates that in future periods these Contract Costs may also consist of significant amounts paid to third party agents. As the Contract Costs are similar to intangible assets the Company has grouped these with intangible assets on the balance sheet for presentation purposes.

On January 1, 2018, the Company recognized Contract Costs and accrued liabilities of \$795 as initial adjustment on adopting IFRS 15. The Company recorded amortization expense of \$86 associated with the above Contract Costs during the 2018. Under the previous standards, the Company would have recognized employee compensation costs of approximately \$300.

In addition, the Company recognized additional Contract Costs of \$960 related to new revenue streams secured during 2018 and recorded amortization expense of \$72 in respect of these. Under the previous standards, the Company would have recognized employee compensation costs of approximately \$524.

#### (b) Future changes in accounting policies

##### Leases

On January 13, 2016, the IASB issued IFRS 16 – Leases (“IFRS 16”), which is to replace IAS 17 – Leases (“IAS 17”) effective for annual periods beginning on January 1, 2019. The standard provides a single lease accounting model for lessees, under which substantially all leases will be accounted for as asset acquisitions financed by lease obligations. The acquired lease asset will be amortized over its useful life, which will generally be the lease term. Lease payments will be accounted for as repayments of the lease obligation, and interest expenses will be recorded on the obligation. This differs from IAS 17, under which most of the Company’s leases do not result in the recognition of an asset or a lease obligation and that, the Company’s average lease payment was expensed over the term of the lease as part of other expenses. IFRS 16 may be implemented on a retrospective basis or a modified retrospective basis. The modified retrospective basis also allows for certain practical expedients to facilitate transition.

The Company anticipates that it will implement IFRS 16 on a modified retrospective basis and will make use of certain practical expedients. As a result of implementing IFRS 16 on a modified retrospective basis the Company’s current and future financial statements will not be entirely comparable.

Based on the Company’s evaluations to date, the adoption of IFRS 16 will result in increases in the Company’s assets, liabilities and amortization and interest expense and a decrease in other expenses. In addition, under IFRS 16, expenses will be higher at the outset of the lease and decline over the lease term, whereas under IAS 17 the expenses remain unchanged over the term. The anticipated estimated significant impact from the initial adoption of IFRS 16 on the Company’s 2019 financial statements is shown in the following tables:

As at January 1, 2019		
Increase (decrease) due to the adoption of IFRS 16:		
Right to use leased assets	\$	12,000 to 13,000
Lease obligations		13,500 to 14,500
Accounts payable and other		(1,500) to (2,500)
Retained earnings		1,000 to nil
For the year ended December 31, 2019		
Increase (decrease) due to the adoption of IFRS 16:		
Amortization expense	\$	2,200 to 2,400
Interest expense		400 to 600
Other expenses		(2,400) to (2,600)
Operating earnings		(200) to (400)

The actual impact of IFRS 16 may be different from the above estimates, because the Company continues to work to finalize the opening adjustments required and the impact on the 2019 operating results.

#### 4. 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. These securities are classified as FVTPL and are categorized as Level 1, based upon the fair value hierarchy.

Third party investor liabilities represent third party investors' proportionate ownership interests in the consolidated funds. The liabilities are payable on redemption of the units of the funds by the third party investors and will be settled with the proceeds from the disposition of securities backing third party investor liabilities. The value of the liabilities is equal to and varies with the value of the securities backing third party investor liabilities. These liabilities have been designated as FVTPL 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 year, the Company determined it ceased to control one (2017 – one) of these funds, as disclosed in Note 24 (c) (iv) and (v). The Company derecognized, \$5,291 (2017 – \$246,668) of such assets and their offsetting liabilities during the year.

#### 5. Securities

##### (a) Classification of securities

An analysis of the Company's securities by classification and by the type of security is as follows:

As at December 31	2018	Restated (note 3a) 2017
Fair value through profit or loss:		
Short-term securities (i)	\$ 36,259	\$ 9,810
Fixed-income securities (i)	20,744	19,328
Bank of Montreal common shares (ii)	329,670	372,146
Other equity securities (i) (v)	210,987	237,347
Real estate fund (iii)	19,560	13,545
	617,220	652,176
Amortized cost security (iv)	10,000	–
	\$ 627,220	\$ 652,176

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

(ii) During the year, the Company sold nil (2017 – 300) of the Bank of Montreal common shares and proceeds from sale were \$nil (2017 – \$29,867).

(iii) As at December 31, 2018, the Company had \$17,786 (2017 – \$22,484) in commitments to further invest in a real estate fund managed by a subsidiary.

(iv) Amortized cost security, which was acquired on January 2, 2018, is an investment in term preferred shares which have an initial term of 8 years and a yield of 9% per annum.

(v) As at December 31, 2018 the company had \$10,370 (2017 – \$nil) commitments to further invest in a private equity fund.

##### (b) Fair value hierarchy

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

As at December 31 (iii)	2018	2017
Level 1	\$ 539,823	\$ 586,130
Level 2 (i)	62,671	54,141
Level 3 (ii)	14,726	11,905
Securities classified at FVTPL	\$ 617,220	\$ 652,176

(i) Level 2 securities include investments in certain investment 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% (2017 – 3%) of the assets managed by it. The remainder is substantially comprised of an investment in a private equity fund which is valued based on the funds' reported net asset value.

(iii) During 2018 and 2017, there have been no transfers between Levels.

##### (c) Changes in Level 3 securities

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

For the years ended December 31	2018	2017
Securities categorized as Level 3, beginning of year	\$ 11,905	\$ 12,367
Purchases	4,630	–
Change in fair value	(2,809)	616
Foreign exchange translation adjustments	1,000	(1,078)
Securities categorized as Level 3, end of period	\$ 14,726	\$ 11,905

## 6. 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	2018				2017			
	Contract costs	Advisor recruitment and management contracts	Computer software	Total	Contract costs	Advisor recruitment and management contracts	Computer software	Total
Cost:								
Balance, beginning of year	\$ –	\$ 51,495	\$ 5,591	\$ 57,086	\$ –	\$ 49,633	\$ 4,230	\$ 53,863
On adoption of new accounting standard	795	–	–	795	–	–	–	–
Additions	960	25,905	1,163	28,028	–	3,150	1,371	4,521
Arising on acquisition (note 26)	–	66,529	–	66,529	–	–	–	–
Disposals	–	(1,537)	–	(1,537)	–	(1,211)	–	(1,211)
Foreign currency translation adjustment	–	6,106	12	6,118	–	(77)	(10)	(87)
Balance, end of year	1,755	148,498	6,766	157,019	–	51,495	5,591	57,086
Accumulated amortization:								
Balance, beginning of year	–	23,617	3,894	27,511	–	20,882	3,595	24,477
Amortization	158	8,657	449	9,264	–	3,125	303	3,428
Disposals	–	(517)	–	(517)	–	(357)	–	(357)
Foreign currency translation adjustment	–	272	9	281	–	(33)	(4)	(37)
Balance, end of year	158	32,029	4,352	36,539	–	23,617	3,894	27,511
Carrying value, end of year	\$ 1,597	\$ 116,469	\$ 2,414	\$ 120,480	\$ –	\$ 27,878	\$ 1,697	\$ 29,575

As described in note 3, Changes in accounting policies, the Company commenced recognizing contract costs upon adoption of IFRS 15 – Revenue from contracts with customers on January 1, 2018. Prior to this, these costs were expensed as they were incurred.

## 7. Equipment

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

For the years ended December 31	2018			2017		
	Office equipment	Leasehold improvements	Total	Office equipment	Leasehold improvements	Total
Cost:						
Balance, beginning of year	\$ 8,547	\$ 4,719	\$ 13,266	\$ 8,304	\$ 3,682	\$ 11,986
Purchases	667	948	1,615	316	1,044	1,360
Disposals	–	–	–	–	–	–
Foreign exchange translation adjustments	112	9	121	(73)	(7)	(80)
Balance, end of year	9,326	5,676	15,002	8,547	4,719	13,266
Accumulated amortization:						
Balance, beginning of year	6,473	2,296	8,769	6,016	2,013	8,029
Amortization expense	560	434	994	498	287	785
Disposals	–	–	–	–	–	–
Foreign exchange translation adjustments	61	8	69	(41)	(4)	(45)
Balance, end of year	7,094	2,738	9,832	6,473	2,296	8,769
Carrying value, end of year	\$ 2,232	\$ 2,938	\$ 5,170	\$ 2,074	\$ 2,423	\$ 4,497

## 8. Goodwill

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

For the years ended December 31	2018	2017
Balance, beginning of year	\$ 15,014	\$ 15,014
Acquisitions (note 26)	18,386	–
Impairment	(300)	–
Foreign currency translation adjustments	1,660	–
Balance, end of year	\$ 34,760	\$ 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	2018	2017
Financial advisory:		
Mutual fund distributor	\$ 4,227	\$ 4,227
Life insurance managing general agency	9,599	9,599
Investment management:		
Emerging markets manager	888	1,188
US Equity manager	20,046	–
Total goodwill	\$ 34,760	\$ 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 2018 and 2017, 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 (“AUM”) in each of the investment management CGU's, client assets under administration (“AJA”) 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 multiples used are consistent with market transactions. Based on the results of this testing, there were no indications that the goodwill was impaired in 2018 or 2017, except for a \$300 impairment in the goodwill associated with the emerging markets manager in the current year. This impairment was recorded under net gains (losses), as an offset to a gain on the expiration of a contingent liability, related to the acquisition of the emerging markets manager (note 18 (iii)).

The most sensitive assumptions used in the above testing were:

As at December 31	2018	2017
Mutual fund distributor: multiple of AJA	1.00%	1.00%
Life insurance managing general agency: multiple of annual net service revenue	6	6
Emerging markets manager: multiple of AUM	1.75%	1.75%
US Equity manager: multiple of AUM	2.10%	n/a

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	2018	2017
Mutual fund distributor	\$ 97,187	\$ 94,572
Life insurance managing general agency	51,489	59,690
Emerging markets manager	–	–
US Equity manager	4,474	n/a

The fair value estimates above are considered to be Level 3 under the fair value hierarchy.

Management believes that a possible reasonable change in key assumptions would not cause an impairment in either financial advisory CGU's. A reduction of the multiple used to value the emerging markets investment manager CGU by 0.10%, (from 1.75% to 1.65%), would reduce the estimated fair value less costs to sell of this CGU by \$77 (2017 – \$75). A reduction of the multiple used to value the US equity manager CGU by 0.1%, (from 2.10% to 2.00%), would reduce the estimated fair value less costs to sell of this CGU by \$4,776 (2017 – n/a).

## 9. Bank Loans and Borrowings

Bank loans and borrowings are comprised of the following:

As at December 31	2018	2017
Bank indebtedness (i)	\$ 7,185	\$ 17,759
Bankers' acceptances payable (ii)		
Canadian dollar borrowings	74,668	38,100
US dollar borrowings	57,049	–
Bank loans and borrowings	\$ 138,902	\$ 55,859

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 at maturities ranging from 30 to 270 days. Certain of the facilities allow the Company to borrow in either Canadian or US dollars. The facilities total \$155,000 (2017 – \$157,000), and are secured by general security agreements, the deposits of securities valued at \$209,385 (2017 – \$221,276) and the deposit of treasury stock valued at \$46,262 (2017 – \$58,586).

### (i) 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.

### (ii) Bankers' acceptances payable

These borrowings under bankers' acceptances have maturities of approximately one month or less, and are at rates negotiated in the bankers' acceptance market plus 0.50% or, for US dollar borrowings, at LIBOR plus 0.50%. The borrowings were renewed subsequent to year end.

## 10. Other Liabilities

### (a) Classification of other liabilities

An analysis of the Company's other liabilities is as follows:

As at December 31	2018	2017
Fair value through profit or loss;		
Deferred payments (i)	\$ 6,644	\$ –
Fair value through equity;		
Obligations to non-controlling interests (ii)	19,006	–
	\$ 25,650	\$ –

### (i) Deferred payments

This amount represents the estimated deferred payments totaling \$5,000 USD arising from the January 2, 2018 acquisition of a US-based investment management firm. The amount is the estimated present value of the payments expected in future periods, discounted at 2.7%. The future payments are dependent upon the level of assets under management then achieved in certain investment strategies, to a maximum amount of \$10,000 USD.

### ii) Obligations to non-controlling interests

The amount represents an obligation by the Company to purchase the non-controlling interests of the US-based investment management firm, acquired on January 2, 2018, should the non-controlling interests wish to sell their interests. In accordance with the Company's policy on transactions with non-controlling interests acting in their capacity as owners, all changes in the obligation are reflected in the Statement of equity. The non-controlling interests' option to sell to the Company is exercisable at specified times between January 2, 2023 and January 2, 2033, at prices determined based on the level of revenue achieved by the firm at that time. The \$19,006 (USD \$13,926) is the present value of the estimated US dollar payments required on the earliest date that payment might be required, which is in early 2023. The discount rate used to determine the present value was 11.6%. The most sensitive assumption used in estimating the future expected payment is the projected revenue in the year preceding the exercise date and this assumption largely relies on the most recent actual revenue plus growth that is consistent with the Company's current plans.

### (b) Fair value hierarchy

The valuation for each of the other liabilities is categorized as level 3.

**(c) Changes in Level 3**

An analysis of the changes in other liabilities categorized as level 3 is as follows:

As at December 31	2018	2017
Fair value through profit or loss:		
Balance, beginning of the year	\$ –	\$ –
Arising on acquisition (note 26)	5,932	–
Recognized in net earnings	168	–
Foreign currency translation adjustments	544	–
Balance, end of the year	\$ 6,644	\$ –
Fair value through equity:		
Balance, beginning of the year	\$ –	\$ –
Arising on acquisition (note 26)	14,404	–
Recognized in equity	4,602	–
Balance, end of the year	\$ 19,006	\$ –

**11. 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, 2018 and 2017, there were no material provisions recorded.

**12. 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	2018	2017
Payable within one year	\$ 2,623	\$ 2,042
Payable after one year and within five years	9,471	8,726
Payable after five years	3,896	5,715
Total lease obligations	\$ 15,990	\$ 16,483

During the year ended December 31, 2018, the Company recognized \$2,545 (2017 – \$2,239) of base rental costs in respect of these non-cancellable leases.

**13. Income Taxes****(a) Income tax expense**

The components of the income tax expense are as follows:

For the years ended December 31	2018	Restated (note 3a) 2017
Current tax expense		
Tax on profits for the current year	\$ 10,497	\$ 15,552
Adjustments in respect of prior periods	(62)	(28)
	10,435	15,524
Deferred tax expense		
Origination and reversal of temporary differences	(6,240)	151
Adjustments in respect of prior periods	147	(339)
Benefits from previously unrecognized tax losses or temporary differences	–	(228)
Adjustments due to changes in rates	–	(22)
	(6,093)	(438)
Income tax expense	\$ 4,342	\$ 15,086

**(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% (2017 – 26.5%) in the current year for the following reasons:

For the years ended December 31	2018	Restated (note 3a) 2017
Tax at the combined Federal and Provincial statutory income tax rate for the current year	\$ (1,971)	\$ 30,051
Increase (decrease) in the expense due to:		
Tax exempt income from securities	(3,675)	(3,785)
Rate differential on earnings of subsidiaries	3,440	(7,356)
Adjustments for changes in temporary differences	106	3
Non-taxable portion of gains or losses	6,401	(3,389)
Non-deductible expenses	271	123
Benefits from previously unrecognized tax loss or temporary difference	–	(228)
Adjustments due to changes in rates	(31)	(22)
Other	(199)	(311)
<b>Income tax expense</b>	<b>\$ 4,342</b>	<b>\$ 15,086</b>

The combined statutory income tax rate is the aggregate of the Federal income tax rate of 15.0% (2017 – 15.0%) and the Provincial income tax rate of 11.5% (2017 – 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, 2018							
	Bank of Montreal shares	Other securities	Capital loss carry forwards	Non-capital loss carry forwards	Equipment and intangibles	Other temporary differences	Total
<b>Deferred tax assets:</b>							
Balance, beginning of year	\$ –	\$ –	\$ –	\$ 633	\$ 406	\$ 518	\$ 1,557
Recognized in net earnings	–	–	–	(9)	(59)	(20)	(88)
<b>Balance, end of year</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 624</b>	<b>\$ 347</b>	<b>\$ 498</b>	<b>\$ 1,469</b>
<b>Deferred tax liabilities:</b>							
Balance, beginning of year	\$ 49,103	\$ 4,481	\$ –	\$ (1,905)	\$ 2,778	\$ (3,087)	\$ 51,370
Recognized in net earnings	(5,628)	595	–	(453)	(270)	(425)	(6,181)
Recognized on asset purchase	–	–	–	–	270	–	270
Foreign exchange translations adjustments	–	133	–	(58)	–	3	78
<b>Balance, end of year</b>	<b>\$ 43,475</b>	<b>\$ 5,209</b>	<b>\$ –</b>	<b>\$ (2,416)</b>	<b>\$ 2,778</b>	<b>\$ (3,509)</b>	<b>\$ 45,537</b>
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
<b>Deferred tax assets:</b>							
Balance, beginning of year	\$ –	\$ –	\$ –	\$ 827	\$ 400	\$ 391	\$ 1,618
Recognized in net earnings	–	–	–	(194)	6	127	(61)
<b>Balance, end of year</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 633</b>	<b>\$ 406</b>	<b>\$ 518</b>	<b>\$ 1,557</b>
<b>Deferred tax liabilities:</b>							
Balance, beginning of year	\$ 50,954	\$ 1,844	\$ (8)	\$ (1,112)	\$ 3,156	\$ (3,022)	\$ 51,812
Recognized in net earnings	(1,851)	2,539	8	(752)	(378)	(65)	(499)
Foreign exchange translations adjustments	–	98	–	(41)	–	–	57
<b>Balance, end of year</b>	<b>\$ 49,103</b>	<b>\$ 4,481</b>	<b>\$ –</b>	<b>\$ (1,905)</b>	<b>\$ 2,778</b>	<b>\$ (3,087)</b>	<b>\$ 51,370</b>

### (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 \$219,927 (2017 – \$201,900), 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.

## 14. 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	2018		2017	
	Shares	Amount	Shares	Amount
Class A shares				
Outstanding, beginning of year	26,304	\$ 19,093	26,686	\$ 19,430
Acquired and cancelled	(1,118)	(811)	(507)	(367)
Converted from common	—	—	125	30
Outstanding, end of year	25,186	18,282	26,304	19,093
Common shares				
Outstanding, beginning of year	3,219	778	3,469	838
Acquired and cancelled	—	—	(125)	(30)
Converted to Class A	—	—	(125)	(30)
Outstanding, end of year	3,219	778	3,219	778
Total outstanding, end of year	28,405	\$ 19,060	29,523	\$ 19,871

### (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	2018	2017
Purchased and cancelled		
Class A	1,118	507
Common	—	125
Consideration paid	\$ 26,032	\$ 15,206
Less average issue price, charged to share capital	811	397
Excess consideration charged to retained earnings	\$ 25,221	\$ 14,809

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

For the years ended December 31	2018	2017
Dividends declared and paid, per share	\$ 0.475	\$ 0.385

The Company also declared dividends of \$0.125 and \$0.15 per share payable on January 18, 2019 and April 18, 2019, respectively, on the common and Class A shares outstanding.

## 15. 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	2018		2017	
	Shares	Amount	Shares	Amount
Balance, beginning of year	2,178	\$ 23,764	2,192	\$ 22,342
Acquired	91	2,255	92	2,300
Disposed	(96)	(784)	(106)	(878)
Balance, end of year	2,173	\$ 25,235	2,178	\$ 23,764

During the year, the Company disposed of 96 (2017 – 104) of its class A shares and nil (2017 – 2) of its common shares for amounts equal to their costs.

As at December 31, 2018, the treasury stock was comprised of 30 common shares (2017 – 30) and 2,143 class A shares (2017 – 2,148 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	2018	2017
Balance, beginning of year	1,011	928
Entitlements provided	91	92
Entitlements exercised	(57)	(8)
Forfeited	–	(1)
Balance, end of year	1,045	1,011

Equity-based entitlements provided during the year ended December 31, 2018 had a fair value of \$2,255 (2017 – \$2,300).

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	2018		2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance, beginning of year	1,167	\$ 9.62	1,264	\$ 9.49
Entitlements exercised	(39)	8.91	(97)	8.02
Balance, end of year	1,128	\$ 9.64	1,167	\$ 9.62

No option-like entitlements were granted during 2018 or 2017.

As at December 31, 2018, there were option-like entitlements outstanding for 1,128 class A shares (2017 – 1,167).

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, 2018				
\$5.01 – \$7.50	74	\$ 6.76	74	\$ 6.76
\$7.51 – \$10.00	830	9.37	830	9.39
\$10.01 – \$12.50	224	11.54	224	11.59
	1,128	\$ 9.64	1,128	\$ 9.64
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

## 16. Dividend and Interest Income

Dividend and interest income is comprised of the following:

For the years ended December 31	2018	2017
Dividends on Bank of Montreal shares	\$ 13,986	\$ 13,792
Other securities	5,373	7,585
Dividend income	19,359	21,377
Interest income	4,087	1,705
Dividend and interest income	\$ 23,446	\$ 23,082

## 17. Employee Compensation and Benefits

Employee compensation and benefits are comprised of the following:

For the years ended December 31	2018	2017
Salaries and other compensation, payroll taxes and benefits	\$ 70,131	\$ 60,467
Contributions to defined contribution pension plans	980	942
Stock-based compensation	2,155	1,988
Employee compensation and benefits	\$ 73,266	\$ 63,397

## 18. Net Gains (Losses)

Net gains (losses) are comprised of the following:

For the years ended December 31	2018	Restated (note 3a) 2017
Bank of Montreal common shares	\$ (42,476)	\$ 15,779
Other securities	(9,333)	48,070
Net gains (losses) on securities (i)	(51,809)	63,849
Foreign exchange gains (losses) (ii)	(5,502)	542
Gains on disposition of intangible assets	1,207	840
Gain on expiration of contingent liability (iii)	452	–
Net gains (losses)	\$ (55,652)	\$ 65,231

- (i) Net gains (losses) on securities are a result of changes in fair value of securities, securities backing third party investor liabilities and third party investor liabilities.
- (ii) 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.

(iii) As part of the acquisition of the GuardCap Asset Management Limited (“GuardCap”) in 2014, the Company recognized a deferred payment which was payable in 2018 and dependent on the level of AUM then achieved in certain investment strategies. The level of the AUM achieved on the payment date was such that no payment was required, and as a result the Company had recorded a gain of \$752 on expiration of the liability. The gain as presented is partially offset by the \$300 impairment of goodwill, which had largely resulted from the recognition of the deferred payment upon the acquisition of GuardCap.

## 19. 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	2018	Restated (note 3a) 2017
Weighted average number of class A and common shares outstanding		
Basic	26,845	27,779
Effect of outstanding entitlements and options from stock based compensation plans	–	1,636
Diluted	26,845	29,415
Net earnings attributable to shareholders of class A and common shares		
Basic	\$ (16,952)	\$ 96,819
Effect of outstanding entitlements and options from stock based compensation plans	–	278
Diluted	\$ (16,952)	\$ 97,097

The effects of 2,191 (2017 – 583) 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.

## 20. 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:

For the years ended December 31	Investment management		Financial advisory		Corporate activities and investments		Inter-segment transactions		Consolidated	
	2018	Restated (note 3a) 2017	2018	Restated (note 3a) 2017	2018	Restated (note 3a) 2017	2018	Restated (note 3a) 2017	2018	Restated (note 3a) 2017
<b>Revenue</b>										
Gross commission revenue	\$ -	\$ -	\$145,161	\$136,350	\$ -	\$ -	\$ (2,171)	\$ (1,512)	\$142,990	\$134,838
Commissions paid to advisors	-	-	(97,393)	(92,838)	-	-	-	-	(97,393)	(92,838)
Management fee income, net	96,016	77,016	-	-	-	-	(1,431)	(1,091)	94,585	75,925
Fees paid to referring agents	(8,406)	(5,619)	-	-	-	-	2,171	1,512	(6,235)	(4,107)
	87,610	71,397	-	-	-	-	740	421	88,350	71,818
Administrative services income	6,279	6,081	7,791	8,259	50	-	-	(2)	14,120	14,338
Dividend and interest income	499	280	1,940	867	20,432	21,835	575	100	23,446	23,082
Net revenue	94,388	77,758	57,499	52,638	20,482	21,835	(856)	(993)	171,513	151,238
<b>Expenses</b>										
Employee compensation and benefits	42,799	36,167	20,186	18,097	10,281	9,133	-	-	73,266	63,397
Amortization	5,154	371	4,638	3,382	467	460	-	-	10,259	4,213
Interest	178	50	596	29	2,886	755	(409)	(20)	3,251	814
Other expenses	23,256	20,755	19,151	16,582	(3,610)	(1,719)	(447)	(973)	38,350	34,645
	71,387	57,343	44,571	38,090	10,024	8,629	(856)	(993)	125,126	103,069
Operating earnings	23,001	20,415	12,928	14,548	10,458	13,206	-	-	46,387	48,169
Net gains (losses)	24	377	1,215	835	(56,891)	64,019	-	-	(55,652)	65,231
Net earnings (losses) before income taxes	23,025	20,792	14,143	15,383	(46,433)	77,225	-	-	(9,265)	113,400
Income tax expense	5,788	5,765	3,889	4,214	(5,335)	5,107	-	-	4,342	15,086
Net earnings (losses)	\$ 17,237	\$ 15,027	\$ 10,254	\$ 11,169	\$ (41,098)	\$ 72,118	\$ -	\$ -	\$ (13,607)	\$ 98,314
Net earnings (losses) attributable to:										
Shareholders	\$ 15,375	\$ 15,027	\$ 8,771	\$ 9,674	\$ (41,098)	\$ 72,118	\$ -	\$ -	\$ (16,952)	\$ 96,819
Non-controlling interests	1,862	-	1,483	1,495	-	-	-	-	3,345	1,495
	\$ 17,237	\$ 15,027	\$ 10,254	\$ 11,169	\$ (41,098)	\$ 72,118	\$ -	\$ -	\$ (13,607)	\$ 98,314
<b>Capital expenditure on segment assets</b>										
Intangible assets	\$ 68,566	\$ -	\$ 26,731	\$ 4,521	\$ 55	\$ -	\$ -	\$ -	\$ 95,352	\$ 4,521
Equipment	88	32	1,238	541	289	786	-	-	1,615	1,360
Goodwill	18,386	-	-	-	-	-	-	-	18,386	-
<b>Segment assets and liabilities:</b>										
Assets	\$213,673	\$ 90,457	\$160,984	\$144,393	\$671,774	\$720,020	\$ (57,563)	\$ (42,386)	\$988,868	\$912,484
Liabilities	113,757	71,647	137,439	128,956	183,256	113,063	(57,563)	(42,386)	376,889	271,280

**(b) Geographic segments**

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

For the years end December 31	Canada		Rest of the world		Inter-segment transactions		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
Net revenue	\$ 142,369	\$ 135,662	\$ 30,459	\$ 15,816	\$ (1,315)	\$ (240)	\$ 171,513	\$ 151,238
As at December 31	2018	2017	2018	2017	2018	2017	2018	2017
<b>Segment non-current assets</b>								
Intangible assets	\$ 52,011	\$ 28,683	\$ 68,469	\$ 892	\$ -	\$ -	\$ 120,480	\$ 29,575
Equipment	4,472	3,823	698	674	-	-	5,170	4,497
Goodwill	13,826	13,826	20,934	1,188	-	-	34,760	15,014

## 21. 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	2018	2017
Decrease (increase) in non-cash working capital assets		
Interest-bearing deposits with banks	\$ (4,123)	\$ 20,012
Accounts receivable and other	(6,008)	(697)
Receivables from clients and broker	5,654	(2,694)
Increase (decrease) in non-cash working capital liabilities		
Client deposits	4,126	(20,089)
Accounts payable and other	6,058	2,201
Payable to clients	(7,219)	2,694
Net change in non-cash working capital items	\$ (1,512)	\$ 1,427

## 22. 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 2018 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 \$329,670 (2017 – \$372,146) 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 and has been reducing this risk. A change in the price of the Bank of Montreal shares by 10% would result in a gain or loss of \$32,967 (2017 – \$37,215).

### (b) Market Risk

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

#### (i) Price Risk

Price risk, the risk of a gain or loss resulting from movements in the price of securities, arises when the Company invests in securities. The Company's most significant exposure to price risk, excluding the investment in Bank of Montreal shares and fixed-income securities is as follows:

	Securities classified as fair value through the profit and loss	Gain or loss recognized from 10% market change in region
As at December 31, 2018		
Canada	\$ 37,842	±\$ 3,784
Rest of the World	192,705	19,271
	\$ 230,547	±\$ 23,055
As at December 31, 2017		
Canada	\$ 35,840	±\$ 3,584
Rest of the World	215,051	21,505
	\$ 250,891	±\$ 25,089

This risk is managed through the use of professional in-house portfolio management expertise, which takes a disciplined approach to investment management. The Company's securities holdings, excluding the Bank of Montreal shares, are also diversified by asset class and by geographical region. The net price risk from third party investors liabilities and Securities banking third party liabilities is minimal and is discussed in detail in note 4.

#### (ii) Currency Risk

Currency risk, the risk of a gain or loss resulting from the movements in currency exchange rates, arises when the Company or one of its subsidiaries is a party to financial instruments which are denominated in a currency which is different from its functional currency. The Company's most significant exposure to currency risk is as follows:

As at December 31	2018	2017
Bank loans and borrowings	\$ 57,049	\$ –

The Company's currency risk is primarily related to the US dollar borrowings used to finance the purchase of a US-based subsidiary in 2018. This risk is mitigated by the US dollar cash flows which are generated by that subsidiary. In addition, the Company will recognize an offsetting amount on translation of the investment in this foreign subsidiary and recognize a gain/loss in other comprehensive income. A change in the CAD-USD exchange rate by +/-10% would result in a foreign exchange gain or loss of +/- \$5,704 (2017 – n/a) recognized in net earnings.

From time to time, a foreign subsidiary may hold an unhedged position in Canadian dollars, which can result in foreign exchange gains or losses in that subsidiary. Upon translation of their results on consolidation, the Company will recognize an equal and offsetting foreign currency translation adjustment in Other comprehensive income. This is not considered to be a currency risk as there is no economic risk to the Company.

(iii) Interest Rate Risk

Interest rate risk, the risk of increased income and expense or gain or loss resulting from changes in interest rates, arises when the Company is party to an interest-bearing financial instrument. The Company's significant exposure to interest rate risk is as follows:

As at December 31	2018	2017
Interest rate sensitive assets:		
Interest-bearing deposits with banks	\$ 61,730	\$ 52,637
Short-term securities	36,259	9,810
Fixed-income securities	20,744	19,328
Amortized cost security	10,000	–
	<b>\$ 128,733</b>	<b>\$ 81,775</b>
Interest rate sensitive liabilities:		
Bank loans and borrowings	\$ 138,902	\$ 55,859
Client deposits	61,747	52,653
	<b>\$ 200,649</b>	<b>\$ 108,512</b>

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 would have been increased by approximately \$1,261 (2017 – \$661).

The Company holds \$20,744 (2017 – \$19,328) 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 who selects appropriate fixed-income funds for various interest rates environments and then by the use of professional in-house portfolio management expertise that manages the funds in accordance with each fund's investment policy. The interest rate risk on interest-bearing deposits with banks and the client deposits, both of which arise in the international banking operation, is considered to be low, as the Company manages by matching interest and maturities on the assets and liabilities. The interest rate risk associated with the Company's investment in amortized securities is minimal as the Company intends to hold this investment until maturity. Should the Company change its intention and dispose of the investment prior to maturity it will be exposed to a gain or loss from changes in interest rates at that time.

(c) Credit Risk

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

As at December 31	2018	2017
Cash	\$ 32,362	\$ 48,887
Interest-bearing deposits with banks	61,730	52,637
Accounts receivable and other	47,113	39,087
Receivable from clients and broker	57,712	63,366
Short-term securities	36,259	9,810
Fixed-income securities	20,744	19,328
Amortized cost security	10,000	–
	<b>\$ 265,920</b>	<b>\$ 233,115</b>

The cash and interest-bearing deposits with banks and the majority of the accounts receivable are due from major institutions. The Company reviews the credit worthiness of any banks with which it places deposits, and does not deal with a bank if it is not satisfied with the bank's financial strength. The accounts receivable and other are generally amounts due to from customers and the credit risk is low due to the nature of the Company customers. The accounts receivable may also include amounts that the Company is owed monies from advisors for advances or commission reversals. The credit risk associated with these amounts is mitigated by management's review of the advisors' ability to repay the advances or commission reversals, particularly, before amounts are paid to the advisors. The credit exposure on receivables from clients is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary. There are controls on the amounts that these clients may borrow, depending upon the securities that are pledged. The credit risk associated with the Company's investment in fixed-

income securities are managed by the periodic monitoring of the activities of the portfolio manager who, through diversification and credit quality reviews of the fund's investments, manages the fund's credit risk. The short-term securities government treasury bills or investment in money funds which hold government treasury bills or investment-quality securities with very short duration and low credit risk. The credit risk on the investment in the amortized cost security was minimized by a careful and through examination of the borrowers business by the Company and its in house investment professionals.

**(d) Liquidity Risk**

Liquidity risk, the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities, arises when the Company has insufficient resources to meet its obligations as they come due. The Company is exposed to liquidity risk because it has significant obligations which are due within one year. The Company manages this financial risk by managing its cash flows through from operations, maintaining a portfolio of liquid securities, and by arranging significant borrowing facilities with major Canadian banks which are secured by collateral.

**23. 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, 2018, the Company's regulated businesses had total regulatory capital amounting to \$193,460 (2017 – \$190,941). 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.

**24. 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 certain family members are possible beneficiaries. As at December 31, 2018, Minic beneficially owned 49.3% (2017 – 49.4%) of the Company's outstanding common shares. In 2018 and 2017, 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	2018	2017
Short-term employment benefits	\$ 6,662	\$ 4,955
Post-employment benefits	28	21
Stock-based compensation	1,115	850
	<b>\$ 7,805</b>	<b>\$ 5,826</b>

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	2018	2017
Investment management services	\$ 33	\$ 25

### (c) Subsidiaries

The Company's significant subsidiaries during the periods and ownership interest at years end are as follows:

As at December 31		2018	2017
	Country of organization	Voting ownership interest	
Guardian Capital LP	Canada	100%	100%
Guardian Capital Advisors LP	Canada	100%	100%
Guardian Ethical Management Inc.	Canada	100%	100%
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%
Alta Capital Management, LLC (i)	United States	70%	n/a
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	82%	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	74%	75%
Guardcap UCITS Funds PLC, Global Equity Fund (iv)	Ireland	n/a	34%
Guardcap UCITS Funds PLC, Emerging Markets Fund	Ireland	98%	100%
Guardcap UCITS Funds PLC, Alta All Cap Fund	United States	100%	n/a
Alta Quality Growth Fund	United States	100%	n/a
AMG Guardian Capital Global Dividend Fund (v)	United States	0%	89%

(i) The principal place of business for Alta Capital Management LLC ("Alta"), the Company's US equity investment manager subsidiary, is located at Suite 260, South Wasatch Boulevard, Salt Lake City, Utah. The non-controlling interests have a 30% equity and voting ownership interest in Alta.

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

For the years ended December 31	2018	2017
Balance, beginning of year	\$ -	\$ -
Arising on acquisition	22,656	-
Net earnings attributable to non-controlling interests	1,932	-
Other comprehensive income attributable to non-controlling interest	2,052	-
Distributions	(2,264)	-
Balance, end of year	\$ 24,376	\$ -

Summarized financial information about assets, liabilities, and operations of Alta before inter-company eliminations in which the non-controlling interests have an interest in are as follows:

As at December 31	2018	2017
Current assets	\$ 6,783	\$ -
Intangible assets	67,705	-
Goodwill	20,047	-
	\$ 94,535	\$ -
Current liabilities	\$ 3,136	\$ -
For the years ended December 31	2018	2017
Revenue	\$ 18,407	\$ -
Net earnings	6,206	-
Comprehensive income	13,046	-



- (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 18% (2017 – 20%) equity and 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	2018	2017
Balance, beginning of year	\$ 6,788	\$ 5,293
Net earnings attributable to non-controlling interests	1,510	1,495
Dividends	(264)	–
Acquisition of non-controlling interests (note 25)	(639)	–
Balance, end of year	\$ 7,395	\$ 6,788

Summarized financial information about assets, liabilities and operations of IDC WIN before inter-company eliminations in which the non-controlling interests have an interest in are as follows:

As at December 31	2018	2017
Current assets	\$ 7,002	10,086
Intangible assets	43,574	22,046
Other non-current assets	5,000	4,063
	\$ 55,576	\$ 36,195
Current liabilities	\$ 17,266	\$ 5,495
Non-current liabilities	1,798	1,645
	\$ 19,064	\$ 7,140

For the years ended December 31	2018	2017
Revenue	\$ 33,009	\$ 29,244
Net earnings	8,525	7,951
Comprehensive income	8,525	7,951

- (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 15, Treasury Stock.
- (iv) Effective December 31, 2017, Guardcap UCITS Funds PLC, Global Equity Fund ceased to be a subsidiary and, as a result, the Company ceased to consolidate this fund on that date. The Company continues to hold an 18% interest in this fund as at December 31, 2018.
- (v) Effective December 10, 2018 the AMG Guardian Capital Global Dividend Fund ceased activity and was dissolved. As a result the company ceased to consolidate this fund on that date.

**(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	2018	2017
Net assets of unconsolidated investment funds	\$ 3,578,118	\$ 3,637,606
Company’s interests in unconsolidated investment funds	173,695	193,559

For the years ended December 31	2018	2017
Net revenues earned directly from unconsolidated investment funds	\$ 14,815	\$ 9,327

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

## 25. Acquisition of Non-Controlling Interests

During 2018, the Company purchased for cash consideration of \$1,882 (2017 – \$nil) a portion of the non-controlling interest in IDC WIN, thereby increasing the Company's ownership interest to 81.6% from 79.7%. The transaction was recorded in the equity accounts as follows:

	2018	2017
Consideration paid	\$ 1,882	\$ –
Carrying value of non-controlling interests	1,243	–
Excess consideration charged to retained earnings	\$ 639	\$ –

## 26. Acquisitions

On January 2, 2018, the Company acquired a 70% interest in Alta, an investment management firm based in Salt Lake City, Utah, USA. On closing, Alta had in excess of \$3,200,000 USD of asset under management (“AUM”). The primary reasons for acquiring Alta are to provide the Company with increased access to the US market to distribute its investment products and further diversify the sources of its AUM and revenues. The remaining 30% interest in Alta continues to be held by its key employees, who all have entered into employment agreements with the Company.

The total consideration for the transaction was approximately \$62,259 (\$49,770 USD) which is comprised of \$56,327 (\$45,000 USD) paid on closing and the present value of an estimated deferred payment, due over four years from closing. The deferred payment is calculated based on the level of AUM then achieved to a maximum of \$10,000 USD.

The accounting for the transaction is as follows:

Fair value of the consideration:		
Cash paid on closing		\$ 56,327
Deferred payment		5,932
Total consideration		\$ 62,259
Fair value of intangible assets acquired		
Non-controlling interests		(22,656)
Goodwill		18,386
		\$ 62,259

The Company has recognized non-controlling interests at fair value. The fair value of the non-controlling interests recognized on acquisition is the sum of the present value of the expected cash distributions of profits, which will be made to the non-controlling interests prior to the options becoming exercisable, and the liability which has been recognized in respect of the options.

The intangible assets acquired primarily represent Alta's existing investment contracts with clients, and the goodwill represents the value of Alta arising from retention of key employees, access to established distribution networks in a key market, addition of new products and other potential synergies. The Company expects that approximately \$16,015 of the Goodwill will be deductible for income tax purposes.

As part of the transaction, the Company provided an option to the minority shareholders of Alta to sell their remaining interests in Alta to the Company, and the Company received an option to buy the remaining minority interest in Alta on the same terms and conditions. These options become exercisable commencing on the 5th anniversary of the acquisition and expire on the 15th anniversary of the acquisition, and have exercise prices which are determined based on the level of revenue achieved by Alta. The Company has recognized a liability in respect of the options held by the minority shareholders based on the estimated present value of the expected payment required by the Company on the earliest date the options become exercisable. In accordance with the Company's accounting policies, the offsetting amount has been recorded in other liability.

The costs associated with this transaction were approximately \$600, which were included in the Company's 2017 net earnings as part of other expenses.

Since acquisition on January 2, 2018, Alta's contributions to the Company's results are as follows:

For the period ended December 31, 2018	
Net revenues	\$ 18,407
Net earnings	5,072
Net earnings attributable to shareholders	3,210
Comprehensive income	11,912
Comprehensive income attributable to shareholders	9,860

Included in the net earnings is \$4,609 of amortization expense related to the intangible assets described above. Alta is partnership for income tax purposes, therefore in calculating the net earnings above, income taxes were only provided for the earnings which relate to the Company's interest in Alta. The income taxes on the earnings which relate to the non-controlling interests interest in Alta will be paid directly by them, and as a result are not included in the Company's accounts.

## Directors

### 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

## Principal Executives and Investment Professionals

### 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*

Docé Tomic  
*Head of Wealth Management*

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

Donald Yi  
*Chief Financial Officer*

Ernest B. Dunphy  
*Vice-President and Controller*

Rachel Hindson  
*Vice-President, Legal*

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*

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*

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*

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**Alexandria Bancorp  
Limited**

Robert F. Madden  
*General Manager*

Derrick Harper  
*Chief Financial Officer*

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**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  
*Chairman*

Anthony Messina  
*Managing Director*

Paige Wadden  
*Head of Compliance*

Katharine Baran  
*Head of Operations and  
Technology*

## **Corporate Offices**

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## **Investor Relations**

George Mavroudis  
email: [info@guardiancapital.com](mailto: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 10, 2019  
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](http://www.investorcentre.com/service)



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Our history. Your future.