Guardian

GUARDIAN CAPITAL GROUP LIMITED

Report to Shareholders

SECOND QUARTER 2014

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the three and six months ended June 30, 2014. All per share figures disclosed below are stated on a diluted basis.

For the periods ended June 30	**Three Months**		**Six Months**	
($ in thousands, except per share amounts)	**2014**	2013	**2014**	2013
Net revenue	**$ 29,257**	$ 25,041	**$ 56,979**	$ 48,198
Operating earnings	**9,199**	6,390	**17,755**	11,469
Net gains	**2,737**	666	**6,384**	1,236
Net earnings before net gains (losses) on securities held for sale	**10,066**	6,255	**20,690**	11,320
Net gains (losses) on securities held for sale	**222**	(1,243)	**608**	(728)
Net earnings available to shareholders	**10,163**	4,963	**21,079**	10,506
EBITDA	**$ 10,427**	$ 7,859	**$ 20,198**	$ 14,330
Adjusted cash flow from operations	**9,040**	6,856	**16,516**	11,591
Per Share				
Net earnings before net gains (losses) on securities held for sale	**$ 0.32**	$ 0.20	**$ 0.66**	$ 0.36
Net earnings available to shareholders	**0.33**	0.16	**0.68**	0.34
EBITDA	**0.33**	0.25	**0.65**	0.46
Adjusted cash flow from operations	**0.29**	0.22	**0.53**	0.38
As at	**June 30,**	March 31,	December 31,	June 30,
($ in millions, except per share amounts)	**2014**	2014	2013	2013
Assets under management	**$ 24,601**	$ 23,237	$ 22,228	$ 20,379
Assets under administration	**12,732**	12,227	11,559	10,322
Fair value of corporate holdings of securities	**497**	468	449	394
Shareholders' equity	**463**	438	415	355
Per Share				
Fair value of corporate holdings of securities	**$ 15.78**	$ 14.88	$ 14.26	$ 12.51
Shareholders' equity	**14.72**	13.93	13.17	11.27

Summary

The Company's assets under management ("AUM") as at June 30, 2014 grew to $24.6 billion, an increase of 6% since March 31, 2014 and 21% since June 30, 2013. Assets under administration ("AUA") were $12.7 billion as at June 30, 2014, an increase of 4% since March 31, 2014 and 23% since June 30, 2013.

The Company's operating earnings for the current quarter were $9.2 million, an increase of 44% from $6.4 million in Q2 2013. All segments of the Company's operations contributed positively to the overall growth in operating earnings. In addition, the net gains for the quarter at $2.7 million were significantly higher than in the same quarter in 2013.

Net earnings available to shareholders for the quarter were $10.2 million, or $0.33 per share, compared to $5.0 million, or $0.16 per share, in Q2 2013. The increase in net earnings was due to a combination of the strong operating earnings growth and the increase in net gains from the Company's diversified global investment portfolio.

EBITDA for the quarter was $10.4 million, or $0.33 per share, compared to $7.9 million, or $0.25 per share in Q2 2013. Adjusted cash flow from operations for the quarter was $9.0 million, or $0.29 per share, compared to $6.9 million, or $0.22 per share in 2013. These two non-IFRS financial measures used by the Company are defined in its quarterly Management's Discussion and Analysis. The increases in each of these measures reflect the strong growth in operating earnings for the quarter.

The fair value of the Company's holdings of securities as at June 30, 2014 was $497 million, or $15.78 per share, compared to $449 million, or $14.26 per share, as at December 31, 2013 and $394 million, or $12.51 per share, as at June 30, 2013. The Company's shareholders' equity as at June 30, 2014 was $463 million, or $14.72 per share, compared to $415 million, or $13.17 per share, at December 31, 2013 and $355 million, or $11.27 per share, as at June 30, 2013.

Commentary and Outlook

Equity markets remained well supported through the quarter, with several markets closing at or near all-time highs. The major developed economies – the U.S., the Eurozone, and the U.K. – all continue to experience some level of growth, while emerging economies are facing deceleration, although China appears to be stabilizing. Even Japan, which put in place a significant and potentially growth crippling increase in consumer tax on April 1st, appears to be showing signs of renewed strength. All in all, this is good news for the global economy, although we continue to highlight that there remains a lot of fragility in the system. The U.S. is gathering strength, the pace is uneven and there are still fiscal and monetary imbalances that need to be navigated; the Eurozone is hardly growing and is exposed to potential derailment from weak countries on the periphery and the potential threat of deflation; Japan's growth is the result of massive liquidity injection; and China's growth appears to be slowing down faster than anticipated. The recent rise in geopolitical risk could also bring unwanted developments – witness recent events in the Ukraine, Iraq, and Israel. Markets have nevertheless welcomed the economic improvements, even if they are humble and fragile. We continue to witness positive equity returns so far this year.

The Canadian economy has been resilient and continues to surprise many observers that predicted tougher times ahead. Fears of a bursting in the housing bubble and collapse in consumption from a highly indebted consumer have not materialized. Nevertheless, consumption must slow down at some point and debt must be repaid. As well, Government outlays are likely to be restrained in 2014 as both federal and provincial governments are working toward balanced budgets. Finally, businesses have shown limited appetite for investments and this has been confirmed by recent surveys pointing to very weak spending growth, which will stand in the way of further economic growth. Our most significant tailwind may well be the improving U.S. economy and the positive impact on Canadian exports, fuelled by a somewhat cheaper dollar, as 70% of Canada's exports are destined for the U.S. Overall, we continue to expect Canada to experience positive growth this year but it will likely lag, somewhat, the growth in the U.S.

The Canadian S&P/TSX index rose 6.4% in the second quarter following a 6.1% rise in the first quarter. The performance of this benchmark remains the external factor having the greatest effect on the Company's performance, as over 60% of our assets under management are exposed to it. In the second quarter, we continued to add new assets from existing and new clients with particular success in the retail intermediary client segment. AUM grew by 6% during the second quarter and by 21% over the 12 months since June 30, 2013.

As a result of the growth in AUM, our investment management businesses provided management fee income in the second quarter of 2014 which was more than 22% greater than in the second quarter of 2013. Operating earnings for the three months ended June 30, 2014 of $9.2 million were 44% above the $6.4 million in the same period in 2013. We continue to focus our efforts on building long term sustainable operating earnings, concurrently with a more diversified product base. In order to achieve this next stage of growth, we will take advantage of our current operating platform success and invest in new capabilities. These additional investments are expected to require increased expenditures, which may over the short term have a negative effect on earnings. Examples of our commitment to invest for future growth can be found in our efforts to build a real estate investment management capability in Canada, and our newly acquired presence in London, UK, where we have added investment professionals with a goal towards building a best in class fundamental global investment team to manage focused, concentrated strategies both in emerging markets and global equities. We, however, believe that the short-term cost, and its effect on operating earnings, will lead to improved future operating earnings and long-term value.

The Company's financial advisory business, through its subsidiary Worldsource Wealth Management, continues to deliver improved operating earnings. AUA reached a record $12.7 billion as at June 30, 2014, a 4% increase compared to $12.2 billion as at March 31, 2014, and a 23% increase compared to $10.3 billion as at June 30, 2013. Growth in AUA was largely due to positive markets and net new segregated fund sales through our life insurance managing general agency. The mutual fund and securities dealerships continue to show steady improvements in revenues and the management of expenses. Our managing general agency in the second quarter of 2014 continued to record strong new life insurance sales and a healthy pipeline of new life insurance policy applications submitted, which is a precursor to actual life policies being issued. In the first six months of 2014, the premiums on life insurance policies sold were $22 million, which is $6 million ahead of last year's pace. These premiums translate into both current and future net commission revenue for the financial advisory segment.

Both the investment management and financial advisory businesses have the financial strength of the Company's balance sheet to support their patient, long-term strategic business objectives of becoming meaningful contributors to operating profit. The Board is pleased to report that we have declared the next quarterly dividend, of $0.065 per share payable on October 17, 2014, to shareholders of record on October 10, 2014.

On behalf of the Board, August 11, 2014

[signed "James Anas"]

James Anas
Chairman of the Board

[signed "George Mavroudis"]

George Mavroudis
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	June 30 2014	December 31 2013
ASSETS		
Current assets		
Cash	$ 25,116	$ 28,446
Interest-bearing deposits with banks	58,497	57,285
Accounts receivable and other	28,495	25,986
Receivables from clients and broker	42,892	42,215
Prepaid expenses	1,650	1,577
	156,650	155,509
Securities (note 3)		
Securities holdings	488,733	443,754
Securities held for sale	7,919	5,425
	496,652	449,179
Other assets		
Deferred tax assets	3,456	3,757
Intangible assets	22,677	20,611
Equipment	3,867	3,674
Goodwill	11,111	11,111
Investment in associate	333	333
Other	967	886
	42,411	40,372
Total Assets	$ 695,713	$ 645,060
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 4)	$ 57,095	$ 55,929
Client deposits	57,273	57,312
Accounts payable and other	22,424	27,408
Income taxes payable	899	1,092
Payable to clients	42,892	42,215
	180,583	183,956
Other liabilities		
Other payables	988	--
Deferred tax liabilities	47,814	43,316
Total Liabilities	229,385	227,272
EQUITY		
Shareholders' equity		
Capital stock (note 5)	21,637	21,679
Treasury stock (note 6)	(19,930)	(18,700)
Contributed surplus	10,214	9,583
Retained earnings	262,826	245,961
Accumulated other comprehensive income	188,559	156,462
	463,306	414,985
Non-controlling interests	3,022	2,803
Total Equity	466,328	417,788
Total Liabilities and Equity	$ 695,713	$ 645,060

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended June 30	Three Months		Six Months	
($ in thousands, except per share amounts)	**2014**	2013	**2014**	2013
Revenue				
Gross commission revenue	**$ 24,555**	$ 20,686	**$ 48,588**	$ 41,239
Commissions paid to advisors	**(18,011)**	(15,358)	**(35,782)**	(30,409)
	6,544	5,328	**12,806**	10,830
Management fee income, net (note 7)	**15,097**	12,336	**29,557**	23,963
Administrative services income	**2,741**	2,661	**5,390**	4,632
Dividend and interest income (note 8)	**4,875**	4,716	**9,226**	8,773
Net revenue	**29,257**	25,041	**56,979**	48,198
Expenses				
Employee compensation and benefits	**12,507**	11,645	**25,082**	23,470
Amortization	**888**	967	**1,707**	1,997
Interest	**269**	322	**515**	604
Other expenses	**6,394**	5,717	**11,920**	10,658
	20,058	18,651	**39,224**	36,729
Operating earnings	**9,199**	6,390	**17,755**	11,469
Net gains (note 9)	**2,737**	666	**6,384**	1,236
Net earnings before income taxes and net gains (losses) on securities held for sale	**11,936**	7,056	**24,139**	12,705
Income tax expense	**1,870**	801	**3,449**	1,385
Net earnings before net gains (losses) on securities held for sale	**10,066**	6,255	**20,690**	11,320
Net gains (losses) on securities held for sale (note 9)	**222**	(1,243)	**608**	(728)
Net earnings	**$ 10,288**	$ 5,012	**$ 21,298**	$ 10,592
Net earnings before net gains (losses) on securities held for sale, available to:				
Shareholders	**$ 9,941**	$ 6,206	**$ 20,471**	$ 11,234
Non-controlling interests	**125**	49	**219**	86
Net earnings before net gains (losses) on securities held for sale	**$ 10,066**	$ 6,255	**$ 20,690**	$ 11,320
Net earnings before net gains (losses) on securities held for sale, available to shareholders per Class A and Common share (note 10):				
Basic	**$ 0.33**	$ 0.20	**$ 0.68**	$ 0.37
Diluted	**0.32**	0.20	**0.66**	0.36
Net earnings available to:				
Shareholders	**$ 10,163**	$ 4,963	**$ 21,079**	$ 10,506
Non-controlling interests	**125**	49	**219**	86
Net earnings	**$ 10,288**	$ 5,012	**$ 21,298**	$ 10,592
Net earnings available to shareholders per Class A and Common share (note 10):				
Basic	**$ 0.34**	$ 0.16	**$ 0.70**	$ 0.34
Diluted	**0.33**	0.16	**0.68**	0.34

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the periods ended June 30	Three Months		Six Months	
($ in thousands)	**2014**	2013	**2014**	2013
Net earnings	**$ 10,288**	$ 5,012	**$ 21,298**	$ 10,592
Other comprehensive income				
Available for sale securities:				
Net change in fair value	**25,777**	(16,138)	**42,501**	1,570
Income tax provision (recovery)	**2,903**	(1,971)	**4,977**	81
	22,874	(14,167)	**37,524**	1,489
Transfer to net earnings of unrealized gains upon disposal	**(2,081)**	(615)	**(5,580)**	(1,060)
	20,793	(14,782)	**31,944**	429
Changes in foreign currency translation adjustment on foreign subsidiary	**(3,704)**	3,015	**153**	5,120
Other comprehensive income (loss)	**17,089**	(11,767)	**32,097**	5,549
Comprehensive income (loss)	**$ 27,377**	$ (6,755)	**$ 53,395**	$ 16,141
Comprehensive income available to:				
Shareholders	**$ 27,252**	$ (6,804)	**$ 53,176**	$ 16,055
Non-controlling interests	**125**	49	**219**	86
Comprehensive income (loss)	**$ 27,377**	$ (6,755)	**$ 53,395**	$ 16,141

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended June 30 *($ in thousands)*	Three Months **2014**	 2013	Six Months **2014**	 2013
Total equity, beginning of period	**$ 441,260**	$ 370,550	**$ 417,788**	$ 357,750
Shareholders' equity, beginning of period	**438,363**	366,519	**414,985**	353,756
Capital stock				
Balance, beginning of period	**21,679**	21,967	**21,679**	22,113
Acquired and cancelled (note 5c)	**(42)**	(162)	**(42)**	(308)
Capital stock, end of period	**21,637**	21,805	**21,637**	21,805
Treasury stock				
Balance, beginning of period	**(19,897)**	(19,129)	**(18,700)**	(17,750)
Acquired	**(50)**	--	**(1,285)**	(1,644)
Disposed of	**17**	345	**55**	610
Treasury stock, end of period	**(19,930)**	(18,784)	**(19,930)**	(18,784)
Contributed surplus				
Balance, beginning of period	**9,902**	8,664	**9,583**	8,636
Stock-based compensation expense	**329**	341	**681**	579
Redemption of equity-based entitlements	**(17)**	(90)	**(50)**	(300)
Contributed surplus, end of period	**10,214**	8,915	**10,214**	8,915
Retained earnings				
Balance, beginning of period	**255,209**	227,984	**245,961**	231,040
Net earnings available to shareholders	**10,163**	4,963	**21,079**	10,506
Dividends declared and paid	**(1,665)**	--	**(3,333)**	(6,166)
Capital stock acquired and cancelled (note 5c)	**(881)**	(2,696)	**(881)**	(5,129)
Acquisition of non-controlling interests	**--**	(2,831)	**--**	(2,831)
Retained earnings, end of period	**262,826**	227,420	**262,826**	227,420
Accumulated other comprehensive income				
Balance, beginning of period	**171,470**	127,033	**156,462**	109,717
Unrealized gains on available for sale securities, net of income taxes:				
Balance, beginning of period	**166,762**	130,283	**155,611**	115,072
Net change during period	**20,793**	(14,782)	**31,944**	429
Balance, end of period	**187,555**	115,501	**187,555**	115,501
Foreign currency translation adjustment on a self-sustaining foreign subsidiary:				
Balance, beginning of period	**4,708**	(3,250)	**851**	(5,355)
Net change during period	**(3,704)**	3,015	**153**	5,120
Balance, end of period	**1,004**	(235)	**1,004**	(235)
Accumulated other comprehensive income, end of period	**188,559**	115,266	**188,559**	115,266
Shareholders' equity, end of period	**463,306**	354,622	**463,306**	354,622
Non-controlling interests				
Balance, beginning of period	**2,897**	4,031	**2,803**	3,994
Net earnings available to non-controlling interests	**125**	49	**219**	86
Acquisition of non-controlling interests	**--**	(1,503)	**--**	(1,503)
Non-controlling interests, end of period	**3,022**	2,577	**3,022**	2,577
Total equity, end of period	**$ 466,328**	$ 357,199	**$ 466,328**	$ 357,199

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended June 30 *($ in thousands)*	Three Months **2014**	 2013	Six Months **2014**	 2013
Operating activities				
Net earnings	**$ 10,288**	$ 5,012	**$ 21,298**	$ 10,592
Adjustments for:				
Income taxes (paid)	**(1,265)**	(736)	**(3,613)**	(2,408)
Income tax expense	**1,870**	801	**3,449**	1,385
Net (gains)	**(2,737)**	(666)	**(6,384)**	(1,236)
Net (gains) losses on securities held for sale	**(148)**	1,243	**(330)**	728
Amortization of intangible assets	**717**	736	**1,381**	1,494
Amortization of equipment	**171**	231	**326**	503
Stock-based compensation	**329**	341	**681**	579
	9,225	6,962	**16,808**	11,637
Net change in non-cash working capital items (note 12)	**6,703**	5,388	**(9,580)**	(2,545)
Net cash from operating activities	**15,928**	12,350	**7,228**	9,092
Investing activities				
Net disposition (acquisition) of securities	**3,198**	(967)	**4,862**	735
Acquisition of securities held for sale	**(7,841)**	(5,175)	**(8,119)**	(10,756)
Proceeds from sale of securities held for sale	**--**	400	**--**	1,328
Acquisition of intangible assets	**(712)**	(1,531)	**(1,670)**	(2,281)
Acquisition of equipment	**(148)**	(138)	**(482)**	(170)
Disposition of intangible assets	**220**	842	**441**	1,732
Business acquisitions (note 14)	**(1,231)**	--	**(1,231)**	(356)
Net cash used in investing activities	**(6,514)**	(6,569)	**(6,199)**	(9,768)
Financing activities				
Dividends	**(1,665)**	--	**(3,333)**	(6,166)
Acquisition and cancellation of capital stock	**(923)**	(2,858)	**(923)**	(5,437)
Acquisition of treasury stock	**(50)**	--	**(1,285)**	(1,644)
Disposition of treasury stock	**17**	345	**55**	610
Net (repayment) proceeds of bank loans and borrowings	**(8,962)**	3,494	**(2,790)**	18,873
Acquisition of non-controlling interests	**--**	(4,334)	**--**	(4,334)
Net cash (used in) from financing activities	**(11,583)**	(3,353)	**(8,276)**	1,902
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	**(519)**	381	**(39)**	406
Net change in net cash	**(2,688)**	2,809	**(7,286)**	1,632
Net cash, beginning of period	**23,119**	17,044	**27,717**	18,221
Net cash, end of period	**$ 20,431**	$ 19,853	**$ 20,431**	$ 19,853
Net cash represented by:				
Cash			**$ 25,116**	$ 22,188
Bank indebtedness			**(4,685)**	(2,335)
			$ 20,431	$ 19,853

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **(Unaudited)**

1. REPORTING ENTITY

These unaudited interim consolidated financial statements include the accounts of Guardian Capital Group Limited and its subsidiaries and other controlled entities (the "Company"), including special purpose entities which the Company is considered to control. The Company 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. The Company 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. The Company's common and class A shares are listed on the Toronto Stock Exchange.

2. ACCOUNTING POLICIES

Basis of Presentation

These unaudited consolidated interim financial statements have been prepared under International Financial Reporting Standards ("IFRS") in compliance with International Accounting Standard 34, *Interim Financial Reporting*, using the same accounting policies as those used in the Company's consolidated financial statements for the year ended December 31, 2013. Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed in these financial statements.

These consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on August 11, 2014.

These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013, which are included in the Company's 2013 annual report.

These financial statements are presented in Canadian dollars, which is the Company'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 2013 comparative financial information in order to conform to the current year's presentation.

Future Changes in Accounting Policies

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), establishes a new framework for the recognition of revenue from contracts with customers and replaces several other standards and interpretations. The core principle of IFRS 15 is that an entity recognizes revenue upon the transfer of services to customers that reflects the payments to which it expects to be entitled. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company will evaluate the impact which IFRS 15 will have on its consolidated financial statements.

3. SECURITIES

An analysis of the Company's securities is as follows:

As at June 30, 2014 and December 31, 2013	2014	2013
Securities holdings		
Available for sale securities		
Short-term securities	$ 1,858	$ 1,850
Bonds	1,067	1,030
Mutual funds	45,860	34,441
Bank of Montreal common shares	371,235	339,754
Other equity securities	50,989	52,931
Real estate funds (a)	16,347	12,492
	487,356	442,498
Held for trading securities		
Equity securities	1,377	1,256
Total securities holdings	488,733	443,754
Securities held for sale (b)	7,919	5,425
Total securities at fair value	$ 496,652	$ 449,179

(a) The Company made a commitment in 2013 to invest $25,000 in real estate, through a real estate limited partnership (the "LP") which is managed by a subsidiary of the Company. To June 30, 2014, the Company has invested a total of $15,636 in the LP.

(b) Securities held for sale are the Company's interest in mutual funds which the Company is deemed to control but does not consolidate, as it intends to dispose of control through either sale or dilution. During the quarter, the Company reassessed its existing investment in a mutual fund in this classification and concluded that it no longer controls the fund. As a result, this mutual fund has been reclassified from securities held for sale to securities holdings. In addition, during the current quarter, the Company invested seed capital into two new mutual funds which are classified into this category.

4. BANK LOANS AND BORROWINGS

As at June 30, 2014 and December 31, 2013	2014	2013
Bank indebtedness	$ 4,685	$ 729
Bankers' acceptances payable	52,100	55,100
Bank loan	310	100
	$ 57,095	$ 55,929

5. 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 three months ended June 30	2014		2013	
	Shares	Amount	Shares	Amount
i) Class A shares				
Outstanding, beginning of period	27,534	$ 20,487	27,878	$ 20,767
Acquired and cancelled	(55)	(42)	(213)	(162)
Converted from common shares	158	37	19	4
Outstanding, end of period	27,637	20,482	27,684	20,609
ii) Common shares				
Outstanding, beginning of period	4,935	1,192	4,971	1,200
Converted to Class A shares	(158)	(37)	(19)	(4)
Outstanding, end of period	4,777	1,155	4,952	1,196
Total outstanding, end of period	32,414	$ 21,637	32,636	$ 21,805

For the six months ended June 30	2014		2013	
	Shares	**Amount**	Shares	Amount
iii) Class A shares				
Outstanding, beginning of period	**27,534**	**$ 20,487**	28,072	$ 20,913
Acquired and cancelled	**(55)**	**(42)**	(407)	(308)
Converted from common shares	**158**	**37**	19	4
Outstanding, end of period	**27,637**	**20,482**	27,684	20,609
iv) Common shares				
Outstanding, beginning of period	**4,935**	**1,192**	4,971	1,200
Converted to Class A shares	**(158)**	**(37)**	(19)	(4)
Outstanding, end of period	**4,777**	**1,155**	4,952	1,196
Total outstanding, end of period	**32,414**	**$ 21,637**	32,636	$ 21,805

(c) Issuer Bid

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

For the periods ended June 30	Three Months		Six Months	
	2014	2013	**2014**	2013
Class A shares purchased and cancelled	**55**	213	**55**	407
Consideration paid	**$ 923**	$ 2,858	**$ 923**	$ 5,437
Average issue price, charged to share capital	**(42)**	(162)	**(42)**	(308)
Excess consideration charged to retained earnings	**$ 881**	$ 2,696	**$ 881**	$ 5,129

(d) Dividends

For the periods ended June 30	Three Months		Six Months	
	2014	2013	**2014**	2013
Dividends declared and paid per share	**$ 0.055**	$ --	**$ 0.110**	$ 0.200

The Company also declared dividends of $0.065 per share payable on July 17, 2014 on the common and class A shares outstanding. This dividend, which will be recognized on the record date, has not been reflected in these financial statements.

6. TREASURY STOCK

The Company purchases and holds shares in its capital stock through an Employee Profit Sharing Plan Trust (the "EPSP Trust"), which are accounted for as treasury stock. These shares are deposited as collateral against a bank loan and certain bankers' acceptances payable, which have been used to finance the purchases of the shares.

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

For the three months ended June 30	2014		2013	
	Shares	**Amount**	Shares	Amount
Balance, beginning of period	**2,206**	**$ 19,897**	2,222	$ 19,129
Acquired	**3**	**50**	--	--
Disposed of	**(1)**	**(17)**	(57)	(345)
Balance, end of period	**2,208**	**$ 19,930**	2,165	$ 18,784

For the six months ended June 30	2014		2013	
	Shares	**Amount**	Shares	Amount
Balance, beginning of period	**2,136**	**$ 18,700**	2,126	$ 17,750
Acquired	**84**	**1,285**	121	1,644
Disposed of	**(12)**	**(55)**	(82)	(610)
Balance, end of period	**2,208**	**$ 19,930**	2,165	$ 18,784

(b) EPSP Trust – Stock-Based Entitlements

The stock-based entitlements provided by the Company to certain senior employees through the EPSP Trust are in the form of either an option-like entitlement or an equity-based entitlement, as described below.

i) Option-like entitlements
The option-like entitlements allow the employees to purchase shares from the EPSP Trust at prices equal to the amount of the loan 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 three months ended June 30	2014		2013	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,496**	**$ 8.95**	1,546	$ 8.86
Entitlements exercised	**--**	**--**	(29)	8.55
Option-like entitlements, end of period	**1,496**	**$ 8.95**	1,517	$ 8.86

For the six months ended June 30	2014		2013	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,497**	**$ 8.95**	1,552	$ 8.86
Entitlements exercised	**(1)**	**9.71**	(35)	8.73
Option-like entitlements, end of period	**1,496**	**$ 8.95**	1,517	$ 8.86

No option-like entitlements were provided during the current and prior period. 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.

ii) Equity-based entitlements
Equity-based entitlements allow the employees to purchase shares from the EPSP Trust at zero cost, subject to predetermined vesting arrangements and other conditions. When such purchases by employees occur, the Company pays to the EPSP Trust the amount of the bank loan attributable to the shares purchased. 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 number of shares under equity-based entitlements is as follows:

For the periods ended June 30	**Three Months**		**Six Months**	
	2014	2013	**2014**	2013
Equity based entitlements, beginning of the period	**710**	676	**639**	574
Entitlements provided	**3**	--	**84**	121
Entitlements exercised	**(1)**	(28)	**(11)**	(47)
Entitlements forfeited	**--**	(9)	**--**	(9)
Equity based entitlements, end of period	**712**	639	**712**	639

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.

Equity-based entitlements provided during the three and six months end June 30 had a fair value of $50 and $1,285 respectively (2013 - $ nil and $1,644).

7. MANAGEMENT FEE INCOME, NET

Management fee income is presented net of referral fees which are paid to referring agents, amounting to $889 for the three months ended June 30, 2014 (2013 - $563) and $1,600 for the six months ended June 30, 2014 (2013 - $1,159)

8. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2014	2013	**2014**	2013
Dividend income	**$ 4,594**	$ 4,506	**$ 8,721**	$ 8,394
Interest income	**281**	210	**505**	379
	$ 4,875	$ 4,716	**$ 9,226**	$ 8,773

9. NET GAINS AND NET GAINS ON SECURITIES HELD FOR SALE

Net gains are composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2014	2013	**2014**	2013
Held for trading securities (a)	**$ 65**	$ 18	**$ 118**	$ 31
Available for sale securities	**2,299**	642	**6,168**	1,445
Net gains on securities	**2,364**	660	**6,286**	1,476
Gains on disposal of intangible assets	**50**	120	**115**	182
Foreign exchange gains (losses) (b)	**323**	(114)	**(17)**	(422)
Net gains	**$ 2,737**	$ 666	**$ 6,384**	$ 1,236

(a) Net gains on held for trading securities are composed of realized net gains and the net change in the fair value of securities owned by a consolidated mutual fund.

(b) Foreign exchange gains (losses) consist mainly of exchange gains and losses on Canadian dollars held by the international banking subsidiary, which uses the US dollar as its functional currency. Upon translation of this subsidiary's results to Canadian dollars on consolidation, an equal and offsetting loss or gain is recorded in other comprehensive income.

Net gains on securities held for sale are composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2014	2013	**2014**	2013
Net gains (losses)	**$ 178**	$ (1,243)	**$ 450**	$ (728)
Other income	**74**	--	**278**	--
Income tax expense	**(30)**	--	**(120)**	--
Net gains (losses) on securities held for sale	**$ 222**	$ (1,243)	**$ 608**	$ (728)

Net gains (losses) on securities held for sale include the net change in fair value of those securities, plus income and expenses from the securities held in this category.

10. NET EARNINGS PER SHARE

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

For the periods ended June 30	Three Months 2014	Three Months 2013	Six Months 2014	Six Months 2013
Weighted average number of class A and common shares outstanding				
Basic	**30,244**	30,467	**30,267**	30,645
Effect of outstanding entitlements and options from stock based compensation plans	**1,271**	1,010	**1,234**	994
Diluted	**31,515**	31,477	**31,501**	31,639
Net earnings available to shareholders of class A and common shares				
Basic	**$ 10,163**	$ 4,963	**$ 21,079**	$ 10,506
Effect of outstanding entitlements and options from stock based compensation plans	**101**	95	**196**	313
Diluted	**$ 10,264**	$ 5,058	**$ 21,275**	$ 10,819

11. 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 and administration fees earned on managed mutual funds; b) the financial advisory segment, which relates to the earning of sales commissions and administrative services revenue from assets under administration and the sale of life insurance policies; 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. The Company's business segments do not have any material inter-segment revenues. The following table discloses certain information about these segments:

For the three months ended June 30	Investment Management 2014	Investment Management 2013	Financial Advisory 2014	Financial Advisory 2013	Corporate Activities and Investments 2014	Corporate Activities and Investments 2013	Consolidated 2014	Consolidated 2013
Revenue								
Gross commission revenue	**$ --**	$ --	**$ 24,555**	$ 20,686	**$ --**	$ --	**$ 24,555**	$ 20,686
Commissions paid to advisors	**--**	--	**(18,011)**	(15,358)	**--**	--	**(18,011)**	(15,358)
		--	**6,544**	5,328	**--**	--	**6,544**	5,328
Management fee income, net	**15,097**	12,336	**--**	--	**--**	--	**15,097**	12,336
Administrative services income	**1,203**	967	**1,538**	1,694	**--**	--	**2,741**	2,661
Dividend and interest income	**21**	--	**195**	182	**4,659**	4,534	**4,875**	4,716
Net revenue	**16,321**	13,303	**8,277**	7,204	**4,659**	4,534	**29,257**	25,041
Expenses								
Employee compensation and benefits	**7,250**	6,413	**3,269**	3,465	**1,988**	1,767	**12,507**	11,645
Amortization	**76**	58	**653**	707	**159**	202	**888**	967
Interest	**52**	96	**45**	39	**172**	187	**269**	322
Other expenses	**4,181**	3,688	**2,965**	2,699	**(752)**	(670)	**6,394**	5,717
	11,559	10,255	**6,932**	6,910	**1,567**	1,486	**20,058**	18,651
Operating earnings	**4,762**	3,048	**1,345**	294	**3,092**	3,048	**9,199**	6,390
Net gains	**--**	--	**49**	120	**2,688**	546	**2,737**	666
Net earnings before income taxes and net gains on securities held for sale	**4,762**	3,048	**1,394**	414	**5,780**	3,594	**11,936**	7,056
Income tax expense	**1,148**	490	**428**	161	**294**	150	**1,870**	801
Net earnings before net gains (losses) on securities held for sale	**3,614**	2,558	**966**	253	**5,486**	3,444	**10,066**	6,255
Net gains (losses) on securities held for sale	**--**	--	**--**	--	**222**	(1,243)	**222**	(1,243)
Net earnings	**$ 3,614**	$ 2,558	**$ 966**	$ 253	**$ 5,708**	$ 2,201	**$ 10,288**	$ 5,012

For the three months ended June 30	Investment Management 2014	Investment Management 2013	Financial Advisory 2014	Financial Advisory 2013	Corporate Activities and Investments 2014	Corporate Activities and Investments 2013	Consolidated 2014	Consolidated 2013
Net earnings available to:								
Shareholders	$ 3,614	$ 2,558	$ 841	$ 204	$ 5,708	$ 2,201	$ 10,163	$ 4,963
Non-controlling interests	--	--	125	49	--	--	125	49
Net earnings	$ 3,614	$ 2,558	$ 966	$ 253	$ 5,708	$ 2,201	$ 10,288	$ 5,012
Capital expenditures on segment assets:								
Intangible assets	$ 2,118	$ 1	$ 712	$ 1,417	$ --	$ 113	$ 2,830	$ 1,531
Equipment	7	--	68	71	73	67	148	138
As at June 30, 2014 and December 31, 2013								
Segment assets and liabilities:								
Assets	$ 98,437	$ 96,359	$ 98,615	$ 97,494	$ 498,661	$ 451,207	$ 695,713	$ 645,060
Liabilities	59,016	60,245	56,155	55,844	114,214	111,183	229,385	227,272

For the six months ended June 30	Investment Management 2014	Investment Management 2013	Financial Advisory 2014	Financial Advisory 2013	Corporate Activities and Investments 2014	Corporate Activities and Investments 2013	Consolidated 2014	Consolidated 2013
Revenue								
Gross commission revenue	$ --	$ --	$ 48,588	$ 41,239	$ --	$ --	$ 48,588	$ 41,239
Commissions paid to advisors	--	--	(35,782)	(30,409)	--	--	(35,782)	(30,409)
		--	12,806	10,830	--	--	12,806	10,830
Management fee income, net	29,557	23,963	--	--	--	--	29,557	23,963
Administrative services income	2,247	1,539	3,143	3,093	--	--	5,390	4,632
Dividend and interest income	43	--	371	341	8,812	8,432	9,226	8,773
Net revenue	31,847	25,502	16,320	14,264	8,812	8,432	56,979	48,198
Expenses								
Employee compensation and benefits	14,456	12,789	6,943	7,029	3,683	3,652	25,082	23,470
Amortization	109	120	1,283	1,466	315	411	1,707	1,997
Interest	92	167	91	77	332	360	515	604
Other expenses	7,389	6,947	6,034	5,465	(1,503)	(1,754)	11,920	10,658
	22,046	20,023	14,351	14,037	2,827	2,669	39,224	36,729
Operating earnings	9,801	5,479	1,969	227	5,985	5,763	17,755	11,469
Net gains	--	--	115	182	6,269	1,054	6,384	1,236
Net earnings before income taxes and net gains on securities held for sale	9,801	5,479	2,084	409	12,254	6,817	24,139	12,705
Income tax expense (recovery)	2,383	1,210	684	204	382	(29)	3,449	1,385
Net earnings before net gains (losses) on securities held for sale	7,418	4,269	1,400	205	11,872	6,846	20,690	11,320
Net gains (losses) on securities held for sale	--	--	--	--	608	(728)	608	(728)
Net earnings	$ 7,418	$ 4,269	$ 1,400	$ 205	$ 12,480	$ 6,118	$ 21,298	$ 10,592
Net earnings available to:								
Shareholders	$ 7,418	$ 4,269	$ 1,181	$ 119	$ 12,480	$ 6,118	$ 21,079	$ 10,506
Non-controlling interests	--	--	219	86	--	--	219	86
Net earnings	$ 7,418	$ 4,269	$ 1,400	$ 205	$ 12,480	$ 6,118	$ 21,298	$ 10,592
Capital expenditures on segment assets:								
Intangible assets	$ 2,118	$ 863	$ 1,670	$ 2,124	$ --	$ 157	$ 3,788	$ 3,144
Equipment	194	--	176	80	112	90	482	170

The following table discloses certain information about the Company's activities, segmented geographically:

	Canada		Rest of the World		Consolidated	
For the three months ended June 30	**2014**	2013	**2014**	2013	**2014**	2013
Net revenue	**$ 27,243**	$ 23,460	**$ 2,014**	$ 1,581	**$ 29,257**	$ 25,041
As at June 30, 2014 and December 31, 2013						
Segment non-current assets:						
Intangible assets	**$ 19,810**	$ 19,778	**$ 2,867**	$ 833	**$ 22,677**	$ 20,611
Equipment	**3,408**	3,219	**459**	455	**3,867**	3,674
Goodwill	**11,111**	11,111	**--**	--	**11,111**	11,111

	Canada		Rest of the World		Consolidated	
For the six months ended June 30	**2014**	2013	**2014**	2013	**2014**	2013
Net revenue	**$ 53,673**	$ 45,630	**$ 3,306**	$ 2,568	**$ 56,979**	$ 48,198

12. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

For the periods ended June 30	**Three Months**		**Six Months**	
	2014	2013	**2014**	2013
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	**$ (1,795)**	$(35,852)	**$ (1,011)**	$ (34,211)
Accounts receivable and other	**3,054**	4,798	**(2,314)**	2,546
Receivables from clients and broker	**(96)**	(4,843)	**(677)**	(4,822)
Prepaid expenses	**238**	51	**206**	229
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	**931**	35,056	**(119)**	33,415
Accounts payable and other	**4,275**	1,335	**(6,342)**	(4,524)
Payable to clients	**96**	4,843	**677**	4,822
Net Change	**$ 6,703**	$ 5,388	**$ (9,580)**	$ (2,545)

13. 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, on pages 24 to 26 of the Company's Second Quarter 2014 Report to Shareholders. 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 $371,235 (December 31, 2013 - $339,754) investment in the Bank of Montreal shares, which is a significant portion of the Company's securities holdings. The Company monitors the investment in the Bank of Montreal shares on a continuous basis. A change in the price of the Bank of Montreal shares by 10% would result in an unrealized gain or loss of $37,124 (December 31, 2013 - $33,975) being recorded in the Consolidated Statement of Comprehensive Income.

(b) Market Risk

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

(i) Price Risk

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

	Fair value of held for trading securities and securities held for sale	Unrealized gain or loss recognized in net earnings from a 10% market change in region	Fair value of available for sale securities, excluding Bank of Montreal shares, short-term securities and bonds	Unrealized gain or loss recognized in other comprehensive income from 10% market change in region
As at June 30, 2014				
Canada	**$ 1,377**	**±$ 138**	**$ 36,750**	**±$ 3,675**
United States	**--**	**--**	**10,474**	**1,047**
Rest of the World	**7,919**	**792**	**65,973**	**6,597**
	$ 9,296	**±$ 930**	**$ 113,197**	**±$ 11,319**
As at December 31, 2013				
Canada	$ 6,682	±$ 668	$ 28,046	±$ 2,805
United States	--	--	11,222	1,122
Rest of the World	--	--	60,596	6,059
	$ 6,682	±$ 668	$ 99,864	±$ 9,986

(ii) Currency Risk

The Company's main exposure to currency risk is on its investments in its foreign subsidiaries, amounting to $104,788 (December 31, 2013 - $97,688). Changes in the value of these investments caused by changes in the US dollar and GB pound exchange rates are reflected in other comprehensive income in the period in which the change occurs. This foreign currency exposure is not actively managed, due to the long-term nature of these investments, but is closely monitored by management. From time to time, a foreign subsidiary holds unhedged Canadian dollars, which can result in foreign exchange gains or losses being recorded by the subsidiaries. Upon translation of their results on consolidation, the Company recognizes equal and offsetting gains or losses in other comprehensive income. This is not considered to be a currency risk as there is no economic risk to the Company.

(iii) Interest Rate Risk

The Company is exposed to interest rate risk through its bank loans and borrowings of $57,095 (December 31, 2013 - $55,929). The interest rates on these borrowings are short-term and, if short-term rates increase, the Company's interest expense will increase and net earnings will decrease. The Company also holds a $5,835 investment in a fixed-income mutual fund managed by its subsidiary. The interest rate risk associated with this fund is managed by monitoring the activities of the portfolio manager, who manages this risk by positioning the portfolio for various interest rate environments. The Company is also exposed to interest rate risk in its international banking operation, through the assets interest-bearing deposits with banks of $58,497 (December 31, 2013 - $57,285), and the client deposits liability of $57,273 (December 31, 2013 - $57,312). This risk is low, as it is managed through the matching of interest rates and maturities on these balances.

(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 June 30, 2014 and December 31, 2013	**2014**	2013
Cash	**$ 25,116**	$ 28,446
Interest-bearing deposits with banks	**58,497**	57,285
Accounts receivable and other	**28,495**	25,986
Receivable from clients and broker	**42,892**	42,215
Fixed-income mutual fund	**5,835**	5,425
Short-term securities	**1,858**	1,850
Bonds	**1,067**	1,030
Total, before collateral and credit enhancements	**$ 163,760**	$ 162,237

The Company considers its exposure to credit risk to be low. The cash and interest-bearing deposits with banks and the majority of the accounts receivable are due from major institutions. The Company reviews the credit worthiness of any banks with which it places deposits, and does not deal with a bank if it is not satisfied with the bank's financial strength. The credit exposure on receivables from clients is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary. There are controls on the amounts that these clients may borrow, depending upon the securities that are pledged. The credit risk associated with the Company's investment in a fixed-income mutual fund is managed by monitoring the activities of the portfolio manager who, through diversification and credit quality reviews of the fund's investments, manage the fund's credit risk. The short-term securities and bonds are short-duration, investment-quality securities.

(d) Liquidity Risk

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

14. ACQUISITION

On April 14, 2014, the Company acquired all of the shares of Zephyr Management U.K. Limited ("Zephyr"), an emerging markets equity investment management firm, based in London, UK. This transaction added $114,077 in additional assets under management ("AUM"). After the acquisition, Zephyr has been renamed Guardian Capital Limited ("GCL").

The provisional accounting for the consideration paid for the acquisition is as follows:

Consideration :		
Cash (a)	$	**1,597**
Present value of estimated payment to be made four years after closing		**1,007**
Total consideration		**2,604**
Fair value of identifiable net assets acquired:		
Intangible assets (b)		**2,118**
Net non-cash working capital		**120**
Cash		**366**
Net value of net assets acquired		**2,604**
Goodwill	$	**--**

(a) The net cash paid was $1,231 which is comprised of the cash consideration paid of $1,597, less cash acquired of $366.
(b) Intangible assets are investment management contracts which have an expected life of 15 years.

The payment due four years after closing will be calculated based on the level of AUM then achieved, to a maximum of $2,750 US.

Since its acquisition, GCL has contributed net revenue of $398 and a net loss of $235 to the Company's results. If the acquisition had occurred on January 1, 2014, management estimates that GCL would have earned net revenue of $870 and a net loss of $335. In determining these amounts, management has assumed that the fair value adjustments determined above, which arose on the date of acquisition, would have been the same if the acquisition had occurred on January 1, 2014.

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

15. SUBSEQUENT EVENT

On July 1, 2014 the Company's insurance managing general agency ("MGA") subsidiary acquired the reminaing shares of its partially-owned MGA subsidiary for an initial payment of $1,000 and a second payment due two months after closing, which will be based on the subsidiary's working capital.

16. FINANCIAL STATEMENT REVIEW

These interim consolidated financial statements have not been reviewed by the Company's auditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with securities regulatory requirements, the discussion and analysis which follows pertains to the financial position of Guardian Capital Group Limited and its subsidiaries and consolidated entities ("Guardian") for the three months and six months ended June 30, 2014 and the comparative periods in the year 2013, as well as to certain prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2013 Annual Report. This discussion and analysis has been prepared as of August 11, 2014.

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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private client investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer; and corporate activities and investments. As at June 30, 2014, Guardian had $24.6 billion in assets under management ("AUM") and $12.7 billion of financial advisory assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which, together with its investment in Bank of Montreal shares, had a fair value of approximately $497 million at the end of the quarter.

USE OF NON-IFRS MEASURES

Guardian's management uses certain measures to evaluate and assess the performance of its business. Two of the measures that Guardian uses are not in accordance with International Financial Reporting Standards ("IFRS"). These non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be strictly comparable to similar measures presented by other companies. However, Guardian's management believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these measures in analyzing Guardian's results.

EBITDA

Guardian's management measures the performance of Guardian's business by using EBITDA, which is disclosed in the chart under "Consolidated Financial Results". 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. We believe this is an important measure, as it allows us 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, and capital expenditures. The most comparable IFRS measure is "Net earnings", which is disclosed in Guardian's Consolidated Statements of Operations. The following is a reconciliation of this non-IFRS measure to this IFRS measure:

For the periods ended June 30	Three Months 2014	Three Months 2013	Six Months 2014	Six Months 2013
Net earnings, as reported	**$ 10,288**	$ 5,012	**$ 21,298**	$ 10,592
Add (deduct):				
Net (gains) losses on securities held for sale	**(222)**	1,243	**(608)**	728
Income tax expense	**1,870**	801	**3,449**	1,385
Net (gains)	**(2,737)**	(666)	**(6,384)**	(1,236)
Stock-based compensation	**329**	341	**681**	579
Interest expense	**269**	322	**515**	604
Amortization	**888**	967	**1,707**	1,997
Non-controlling interests	**(258)**	(161)	**(460)**	(319)
EBITDA	**$ 10,427**	$ 7,859	**$ 20,198**	$ 14,330

Adjusted cash flow from operations

Adjusted cash flow from operations is used by management to indicate the amount of cash either provided by or used in Guardian's operating activities which is available to shareholders, and many companies similar to Guardian use a similar measure in this manner. The most comparable IFRS measure is "Net cash used in operating activities", which is disclosed in Guardian's Consolidated Statements of Cash Flow. The following is a reconciliation of this non-IFRS measure to this IFRS measure:

For the periods ended June 30	Three Months 2014	Three Months 2013	Six Months 2014	Six Months 2013
Net cash used in operating activities, as reported	**$ 15,928**	$ 12,350	**$ 7,228**	$ 9,092
Add (deduct):				
Net change in non-cash working capital items	**(6,703)**	$ (5,388)	**9,580**	$ 2,545
Non-controlling interests	**(185)**	(106)	**(292)**	(46)
Adjusted cash flow from operations	**$ 9,040**	$ 6,856	**$ 16,516**	$ 11,591

CONSOLIDATED FINANCIAL RESULTS

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

For the periods ended June 30 *($ in thousands, except per share amounts)*	Three Months 2014	Three Months 2013	Six Months 2014	Six Months 2013
Net revenue	**$ 29,257**	$ 25,041	**$ 56,979**	$ 48,198
Expenses	**20,058**	18,651	**39,224**	36,729
Operating earnings	**9,199**	6,390	**17,755**	11,469
Net gains	**2,737**	666	**6,384**	1,236
Net earnings before income taxes and net gains (losses) on securities held for sale	**11,936**	7,056	**24,139**	12,705
Income tax expense	**1,870**	801	**3,449**	1,385
Net earnings before net gains (losses) on securities held for sale	**10,066**	6,255	**20,690**	11,320
Net gains (losses) on securities held for sale	**222**	(1,243)	**608**	(728)
Net earnings	**$ 10,288**	$ 5,012	**$ 21,298**	$ 10,592
Net earnings available to shareholders	**$ 10,163**	$ 4,963	**$ 21,079**	$ 10,506
EBITDA	**10,427**	7,859	**20,198**	14,330
Adjusted cash flow from operations	**9,040**	6,856	**16,516**	11,591
Diluted per share amounts:				
Net earnings available to shareholders	**$ 0.33**	$ 0.16	**$ 0.68**	$ 0.34
EBITDA	**0.33**	0.25	**0.65**	0.46
Adjusted cash flow from operations	**0.29**	0.22	**0.53**	0.38

As at ($ in millions, except per share amounts)	2014 June 30	2013 December 31	2013 June 30
Assets under management	**$ 24,601**	$ 22,228	$20,379
Assets under administration	**12,732**	11,559	10,322
Fair value of corporate holdings of securities	**497**	449	394
Fair value of corporate holdings of securities per share, diluted	**15.78**	14.26	12.51
Shareholders' equity	**463**	415	355
Shareholders' equity per share, diluted	**14.72**	13.17	11.27

On April 14, 2014, Guardian acquired a London, UK-based emerging markets investment management firm, Zephyr Management U.K. Limited, which was subsequently renamed Guardian Capital Limited ("GCL"). The current quarter's results include the effects of the operations of GCL from April 14, 2014, the costs of integration and further investments into GCL's business. The initial accounting for the acquisition of GCL is described in Note 14 to the Consolidated Financial Statements, contained in Guardian's Second Quarter 2014 Report to Shareholders.

Guardian continued to generate asset growth through market performance and positive net asset flows during the quarter. The AUM and AUA at the end of the quarter grew to $24.6 billion, a 21% increase from a year earlier, and $12.7 billion, a 23% increase from a year earlier, respectively. Included in the above AUM is $114 million managed by GCL.

The benefits of the above increases in AUM and AUA are reflected in the growth of our revenues and operating earnings. Operating earnings for the quarter were $9.2 million, a 44% growth from the $6.4 million in the same quarter last year. Reducing the above operating earnings is the small operating loss of GCL during the quarter, which is anticipated to continue for the near term.

Net gains for the quarter were $2.7 million, compared to $0.7 million in the second quarter of 2013. The increase was partially due to foreign exchange gains in the Company's international banking subsidiary.

The increase in income tax expense for the second quarter of 2014 compared to 2013 was due to the increases in operating earnings and realized net gains.

Net earnings available to shareholders were $10.2 million in the second quarter, a 105% increase compared to $5.0 million in the prior year. The increase was largely due to the higher operating earnings and increased net gains.

EBITDA for the quarter was $10.4 million, a 33% increase from $7.9 million in 2013, largely due to the increase in operating earnings.

Adjusted cash flow from operations for the quarter was $9.0 million, a 32% increase from the $6.9 million in 2013, also mainly due to the increase in operating earnings.

REVENUES AND EXPENSES

Investment Management Revenues

The largest source of revenue at Guardian is investment management fees received from clients, which vary as a result of changes in the values of assets managed, and variations in the rates of management fees charged. The following is a summary of the assets under management and supervision:

As at (*$ in millions*)	2014 June 30	2013 December 31	2013 June 30
Institutional (a)	**$ 22,553**	$ 20,393	$ 18,654
Private client and international banking	**2,048**	1,835	1,725
Total	**$ 24,601**	$ 22,228	$ 20,379
Institutional AUM is composed of:			
Canadian equities	**$ 13,741**	$ 12,556	$ 11,127
Global equities (a)	**2,278**	1,720	1,383
Fixed income	**6,534**	6,117	6,144
Total	**$ 22,553**	$ 20,393	$ 18,654

(a) Included in institutional global equities at June 30, 2014 is $114 million in AUM managed by GCL.

Management fees, net of referral fees paid, for the second quarter of 2014 were $15.1 million, an increase of 22% from the $12.3 million a year earlier, as a result of the significantly increased AUM, and slightly higher fee rates, in the current period.

Institutional management fees earned in the quarter increased to $12.1 million from $9.8 million a year earlier, a 20% increase. Private client and international client management fees, net of referral fees paid, earned in the quarter amounted to $3.0 million, an increase of 20% from $2.5 million a year earlier.

Financial Advisory Commission Revenue

Net commission revenue earned from the financial advisory business is from the sale of life insurance products, mutual funds and other securities, as well as from continuing fees related to AUA and life insurance policies, net of commissions paid to advisors.

Total AUA at Guardian at the end of the quarter amounted to $12.7 billion, 10% higher than the $11.6 billion at the end of 2013 and 23% higher than a year earlier. The increase in AUA was due to successes in recruiting new advisors into the financial advisory subsidiaries, net new sales and positive performance of the financial markets.

Net sales commission revenue was $6.5 million for the second quarter, an increase of approximately 23% from the $5.3 million a year earlier. This increase is largely due to the continued growth in our MGA, plus additional net commissions earned in the mutual fund and securities dealers.

Administrative Services Income

Administrative services income is composed of registered plan and other fees earned in the financial advisory area, administration fees earned from managed mutual funds in the investment management area and trust and corporate administration fees earned in the international area. This income amounted to $2.7 million for the quarter, largely unchanged from a year earlier. These fees are not directly impacted by fluctuations in the financial markets, except for the administration fees earned from mutual funds.

Dividend and Interest Income

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

For the periods ended June 30	Three Months		Six Months	
($ in thousands)	**2014**	2013	**2014**	2013
Dividend income	**$ 4,594**	$ 4,506	**$ 8,721**	$ 8,394
Interest income	**281**	210	**505**	379
Total dividend and interest income	**$ 4,875**	$ 4,716	**$ 9,226**	$ 8,773

Dividend income is composed largely of the quarterly dividends received on the Bank of Montreal shares. The increase in dividend income is due to the increase in the quarterly dividend rate on the Bank of Montreal shares from $0.74 per share to $0.76 per share in 2014, which was slightly offset by the reduction in the number of Bank of Montreal shares held during the current period. The dividend rate has subsequently been increased again to $0.78 per share.

Expenses

Guardian's total operating expenses for the quarter were $20.1 million, a 8% increase from the second quarter in the prior year, a modest increase compared to a 17% increase in net revenue during the same period. Guardian's operating expenses, excluding amortization and interest, were $18.9 million in the second quarter of 2014, compared with $17.4 million in 2013, an increase of approximately of $1.5 million or 9%. The increase in expenses was due mainly to increased variable compensations costs in the investment management business, other increased operating costs to support the growth of the investment management segment, and the addition of the operating expenses and the related integration costs of the recently acquired UK operations. The lower amortization expense in the quarter is due to certain intangible assets being fully amortized in the second quarter of 2013 and therefore not included in the current quarter. The reduced interest expense in the period is due to the utilization of a higher proportion of borrowing by bankers acceptances in the current quarter, compared to 2013.

NET GAINS

For the periods ended June 30 *($ in thousands)*	Three Months 2014	Three Months 2013	Six Months 2014	Six Months 2013
Gains in consolidated mutual funds	**$ 65**	$ 18	**$ 118**	$ 31
Gains on securities directly held	**2,299**	642	**6,168**	1,445
Net gains on securities	**2,364**	660	**6,286**	1,476
Net gains on disposal of intangible assets	**50**	120	**115**	182
Net foreign exchange gains (losses)	**323**	(114)	**(17)**	(422)
Net gains	**$ 2,737**	$ 666	**$ 6,384**	$ 1,236
Net gains (losses) on securities held for sale	**$ 222**	$ (1,243)	**$ 608**	$ (728)

During the quarter, Guardian liquidated part of its portfolio of securities and redeployed it to seed two new funds which were launched during the current quarter, resulting in the recording of significant gains. In addition, net gains of $323 from foreign exchange were recorded, adding to the improvement in net gains from the second quarter a year earlier. The net gains (losses) on foreign exchange mainly relate to exchange gains (losses) on Canadian dollars held by the Company's international banking subsidiary whose functional currency is the US dollar. On translation of this subsidiary's results to Canadian dollars upon consolidation, equal but offsetting losses or gains are recorded in other comprehensive income.

LIQUIDITY AND CAPITAL RESOURCES

The strength of Guardian's balance sheet has enabled Guardian to attract Associates, provide clients with a high comfort level, make appropriate use of borrowings, and develop its businesses. It has also allowed Guardian to maintain the appropriate levels of working capital in each of its areas of operations. The strong cash flow enables Guardian to meet all of its financial commitments, to finance the expansion of its businesses and to purchase the capital assets necessary for the development of those businesses. During 2014, Guardian made $1.6 million in payments on the acquisition of GCL, invested $7.4 million in an investment fund management by GCL and seeded $7.8 million into two new mutual funds million using a combination of cash and redeployment of its securities holdings. Guardian's total bank borrowings at June 30, 2014 amounted to $57.1 million, compared with $55.9 million at December 31, 2013. The total credit available, at attractive terms, under the various arrangements amounts to $83 million. We are confident that the strength of Guardian's balance sheet will continue to provide benefits in the future. Guardian's holdings of securities as at June 30, 2014 had a fair value of $497 million, or $15.78 per share, diluted, compared with $449 million, or $14.26 per share, diluted, as at December 31, 2013, and $394 million, or $12.51 per share, diluted, at June 30, 2013. The following is a summary of Guardian's securities holdings:

SECURITIES HOLDINGS

As at *($ in thousands, except per share amounts)*	2014 June 30	2013 December 31	2013 June 30
Securities at fair value:			
Short-term securities	**$ 1,858**	$ 1,850	$ 2,184
Bonds	**1,067**	1,030	2,020
Mutual funds	**45,860**	34,441	4,381
Bank of Montreal common shares	**371,235**	339,754	302,469
Other equity securities	**52,366**	54,187	45,979
Real estate funds	**16,347**	12,492	250
Total	**488,733**	443,754	357,283
Securities held for sale	**7,919**	5,425	36,322
Total securities at fair value	**$ 496,652**	$ 449,179	$ 393,605
Total securities per share, diluted	**$ 15.78**	$ 14.26	$ 12.51

The redeployment of securities described above under Net gains resulted in additional investments being classified as Securities held for sale.

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.

		Payments due by period			
As at June 30, 2014 *($ in thousands)*	**Total**	**Less than One year**	**One to three years**	**Three to five years**	**After five years**
Bank loans and borrowings	$ 57,095	$ 57,095	$ --	$ --	$ --
Client deposits	57,273	57,273	--	--	--
Accounts payable and other	24,311	23,323	--	988	--
Payable to clients	42,892	42,892	--	--	--
Investment commitment – real estate fund	9,364	9,364	--	--	--
Operating lease obligations	17,187	1,943	3,672	2,805	8,767
Total contractual obligations	$208,122	$191,890	$ 3,672	$ 3,793	$ 8,767

Guardian's contractual commitments are supported by its strong financial position, including its securities holdings, referred to above under the heading "Liquidity and Capital Resources". The Payable to Clients, in Guardian's securities dealer subsidiary, which can fluctuate with client activities, is offset by the Receivable from Clients and Broker. Client Deposits in the offshore banking subsidiary are supported by the Interest-Bearing Deposits with Banks. Guardian has committed to invest $25 million into a real estate limited partnership which is managed by a subsidiary, of which $15.6 million has been invested to date. The balance is expected to be invested as appropriate real estate product becomes available to the limited partnership, at which time Guardian's management will decide on the appropriate strategy for funding this commitment.

SUMMARY OF QUARTERLY RESULTS

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

Quarters ended *($ in thousands, except for per share amounts)*	**Jun 30, 2014**	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012
Net revenue	**$ 29,257**	$ 27,722	$ 27,907	$ 25,173	$ 25,041	$ 23,157	$ 24,146	$ 21,370
Operating earnings	**9,199**	8,556	8,564	6,898	6,390	5,079	5,791	4,647
Net gains (losses)	**2,737**	3,647	7,218	3,183	666	570	(144)	2,045
Net earnings before net gains (losses) on securities held for sale	**10,066**	10,624	14,879	8,602	6,255	5,065	4,938	6,045
Net gains (losses) on securities held for sale	**222**	386	238	432	(1,243)	515	1,084	2,849
Net earnings available to shareholders	**10,163**	10,916	14,980	8,946	4,963	5,543	5,915	8,750
Shareholders' equity	**463,306**	438,363	414,985	393,670	354,622	366,519	353,756	336,362
Per average Class A and Common Share								
Net earnings before net gains (losses) on securities held for sale:								
- Basic	**$ 0.33**	$ 0.35	$ 0.48	$ 0.28	$ 0.20	$ 0.16	$ 0.16	$ 0.19
- Diluted	**0.32**	0.34	0.47	0.27	0.20	0.16	0.15	0.18
Net earnings:								
- Basic	**$ 0.34**	$ 0.36	$ 0.49	$ 0.29	$ 0.16	$ 0.18	$ 0.19	$ 0.28
- Diluted	**0.33**	0.35	0.48	0.29	0.16	0.18	0.19	0.27
Shareholders' equity:								
- Basic	**$ 15.34**	$ 14.49	$ 13.68	$ 12.94	$ 11.64	$ 11.97	$ 11.44	$ 10.78
- Diluted	**14.72**	13.93	13.17	12.51	11.27	11.59	11.16	10.54

Management fees earned in the investment management segment are highly correlated to the growth in AUM and generally not subject to seasonal fluctuations. Guardian may also earn performance management fees on certain accounts, which are determined on an annual and a quarterly basis, and these may be significant. The seasonality which existed in the mutual fund and securities dealer subsidiaries, with some concentration of commissions in the traditional

"RSP season" in the first quarter of each year, has largely dissipated. This change is due to the overriding influence of worldwide market movements, which can affect client and advisor behavior throughout the year, and the continuing move toward "trailer" fees and other continuing-fee revenues. Some seasonality in the commission revenues is now beginning to occur in the MGA business, where the last quarter of the year sees an increase in revenues from "volume bonuses" earned from the life insurance companies. These volume bonuses are increasing each year and are becoming more significant as the business continues to grow.

The growth in net revenue during the periods shown above have generally resulted from two influences. Firstly, reflecting the growth in AUM, management fees in the investment management business have increased steadily and substantially throughout the period, including the earning of a performance fee of $1.4 million in December, 2012. Secondly, there has been significant growth in commissions earned in the financial advisory business, as a result of the continuing growth in the life insurance MGA business and the traditional mutual fund and securities dealerships.

Since gains and losses are recorded on disposal of available for sale securities or other assets when realized, and on changes in the value of held for trading securities, and such amounts can vary from quarter to quarter, the amounts included in "Net gains (losses)" each quarter can fluctuate, as shown in the quarterly results above. The significant net gains recorded in the third and fourth quarters of 2013 and the first and second quarters of 2014 contributed significantly to increases in "Net earnings before net gains (losses) on securities held for sale" in those quarters. Net earnings available to shareholders for the quarter ended June 30, 2013 was reduced because of net losses recorded on securities held for sale. The quarterly fluctuations in shareholders' equity shown above have been largely caused by changes in the value of Guardian's investment in the Bank of Montreal common shares, less the provision for deferred income taxes.

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 13 to the Consolidated Financial Statements, contained in Guardian's Second Quarter 2014 Report to Shareholders, for additional information on risk management.

Market Risk

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

Portfolio Value and Concentration Risks

Guardian's corporate holdings of securities are subject to price fluctuation risk. Guardian manages this risk through professional in-house investment management expertise, each of which takes a disciplined approach to investment management. All securities are held by well-known independent custodians chosen by Guardian. With the exception of the investment of $371 million in the Bank of Montreal shares, which is a significant portion of Guardian's securities holdings, the holdings are diversified, from both an asset class and a geographical perspective. Guardian has accepted the concentration risk associated with its holding of Bank of Montreal shares, as the bank is a diversified company, with a history of steady dividend payments.

Foreign Currency Risk

Guardian's investments in its foreign subsidiaries are subject to the risk of foreign currency exchange rate fluctuations. The effects of changes in foreign currency exchange rates on the values of these investments are not included in Net Earnings, but are recorded as changes in the "Foreign Currency Translation Adjustment" in Guardian's Statements of Comprehensive Income and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. This foreign currency exposure is not actively managed, due to the long-term nature of these investments, but is closely monitored by management. From time to time, the foreign subsidiaries hold unhedged Canadian dollars, which can result in foreign exchange gains or losses being recorded by the subsidiaries. Upon translation of their results on consolidation, Guardian records equal and offsetting gains in Other comprehensive income. This is not to be considered to be a currency risk as there is no economic risk to Guardian.

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 the Company takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in a fixed-income mutual fund is managed by monitoring the activities of the portfolio manager who, through diversification and credit quality reviews of the fund's investments, manage the fund's credit risk.

Interest Rate Risk

Guardian manages interest rate risk in its international banking operations, through matching the interest rates and maturity dates of client deposit liabilities with the assets, interest-bearing deposits with banks. The interest rate risk associated with Guardian's investment in a fixed-income mutual fund 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 various segments of the business, and by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total $83 million through three credit facilities. The maturities of Guardian's contractual commitments are outlined under "Contractual Commitments" in this discussion and analysis. The combination of the cash flows from operations and the borrowing facilities provides sufficient cash resources to manage its liquidity risk.

Regulatory Change Risk

Changes to government regulations, including those related to income taxes, can have an effect on Guardian's business. Examples are the changes in future income tax rates, which have had significant effects on Guardian's income tax expense, and net earnings, in 2006, 2007, 2009 and 2012. Because there had been a downward trend in income tax rates prior to 2012, the effects on earnings in earlier years had been positive, but they were negative in 2012, and further negative effects could result if tax rates increase again in the future. Another area in which regulation affects Guardian's business is in the regulatory requirements of the government and self-regulatory agencies under which our regulated subsidiaries operate. Through a combination of in-house expertise and external advisors, when appropriate, these subsidiaries are able to react to changes in these regulatory requirements.

Performance Risk

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

Financial Advisory Risk

Because of the number of agents who publicly represent each of the Worldsource operating entities, there are risks associated with 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 agents.

Competition Risk

Another risk is competition. Our ability to compete is enhanced by the high quality of our management team, our substantial depth in personnel and resources and a strong balance sheet, which provides us with the flexibility to make the changes necessary to be competitive. In addition, we manage competition risk by tailoring our product and service offerings to market conditions and client needs.

As a result of this risk related to its clients, Guardian has the risk of a reduction in its revenues due to the possible loss of clients, including the possible loss of Worldsource advisors, who could bring their clients to another mutual fund or securities dealer. This risk is managed by having strong marketing efforts to replace lost revenue with new client revenues, and by continuing to offer competitive benefits to advisors.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets, liabilities, contingencies, revenues and expenses. These estimates and assumptions are listed in note 2 (c) to Guardian's December 31, 2013, 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 valuation approaches are most sensitive to the levels of AUA and annual service fees for goodwill and the level of AUM for the fair value of level 3 securities. No changes to the valuation methodologies were made during the current quarter.

OUTLOOK

Equity markets remained well supported through the quarter, with several markets closing at or near all-time highs. The major developed economies – the U.S., the Eurozone, and the U.K. – all continue to experience some level of growth, while emerging economies are facing deceleration, although China appears to be stabilizing. Even Japan, which put in place a significant and potentially growth crippling increase in consumer tax on April 1st, appears to be showing signs of renewed strength. All in all, this is good news for the global economy, although we continue to highlight that there remains a lot of fragility in the system. The U.S. is gathering strength, the pace is uneven and there are still fiscal and monetary imbalances that need to be navigated; the Eurozone is hardly growing and is exposed to potential derailment from weak countries on the periphery and the potential threat of deflation; Japan's growth is the result of massive liquidity injection; and China's growth appears to be slowing faster than anticipated. The recent rise in geopolitical risk could also bring unwanted developments – witness recent events in the Ukraine, Iraq, and Israel. Markets have nevertheless welcomed the economic improvements even if they are humble and fragile. We continue to witness positive equity returns so far this year.

The Canadian economy has been resilient and continues to surprise many observers that predicted tougher times ahead. Fears of a burst in the housing bubble and collapse in consumption from a highly indebted consumer have not materialized. Nevertheless, consumption must slow down at some point and debt must be repaid. As well, Government outlays are likely to be restrained in 2014 as both federal and provincial governments are working toward balanced budgets. Finally, businesses have shown limited appetite for investments and this has been confirmed by recent surveys pointing to very weak spending growth, which will stand in the way of further economic growth. Our most significant tailwind may well be the improving U.S. economy and the positive impact on Canadian exports, fuelled by a somewhat cheaper dollar as 70% of Canada's exports are destined for the U.S. Overall we continue to expect Canada to experience positive growth this year but it will likely lag, somewhat, the growth in the U.S. The Canadian S&P/TSX index rose 6.4% in the second quarter following a 6.1% rise in the first quarter. The performance of this benchmark remains the external factor having the greatest effect on Guardian's performance.

Guardian is highly geared toward the equity markets, across its main business segments and its corporate investment portfolio. An environment which rewards greater equity risk will be positive for the overall performance of the company, as revenue sources such as commission revenue and management fees are aligned toward higher levels of assets under management or assets under administration.

In addition to benefiting from any broad market lift associated with rising equity markets, we believe that the institutional and private client investment management businesses have strong existing relationships with retail intermediaries, whose distribution capabilities have provided a steady flow of new assets and, although the flows are difficult to predict, we expect to continue with our recent successes, by adding net new AUM throughout the year.

Guardian's financial advisory business continues to show improved operating earnings. The mutual fund and securities dealerships continue to show steady improvements in revenues and the management of expenses. New life insurance sales are expected to continue with their strong first six month levels, and this should contribute to a consistent higher rate of net commission revenue for this segment in future quarters.

Both the investment management and financial advisory businesses have the financial strength of Guardian's balance sheet, to support their patient, long-term strategic business objectives of becoming meaningful contributors to operating profit for Guardian. As we succeed in executing our operating business growth plans, we also intend to reward our shareholders.

GUARDIAN
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Our history. Your future.

Guardian Capital Group Limited

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

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