Guardian

GUARDIAN CAPITAL GROUP LIMITED

Report to Shareholders

SECOND QUARTER 2012

GUARDIAN CAPITAL

50 YEARS Our history. Your future.

TO OUR SHAREHOLDERS:

We present the Company's operating results for the three months and six months ended June 30, 2012.

For the periods ended June 30	**Three Months**		**Six Months**	
($ in thousands, except per share amounts)	**2012**	2011	**2012**	2011
Net revenue	**$ 20,085**	$ 17,500	**$ 40,253**	$ 35,123
Operating earnings	**4,860**	3,316	**9,700**	7,465
Net (losses) gains on securities	**(548)**	(478)	**(564)**	306
Net earnings available to shareholders	**2,847**	2,855	**7,265**	7,453
Adjusted cash flow from operations	**5,242**	4,007	**10,646**	8,649
Per Share				
Net earnings, basic	**$ 0.09**	$ 0.09	**$ 0.23**	$ 0.23
Net earnings, diluted	**0.09**	0.09	**0.23**	0.23
Adjusted cash flow from operations, basic	**$ 0.17**	$ 0.12	**$ 0.34**	$ 0.27
Adjusted cash flow from operations, diluted	**0.17**	0.12	**0.34**	0.27

Assets under management were $16.9 billion as at June 30, 2012, compared to $15.9 billion as at December 31, 2011 and $16.2 billion as at June 30, 2011. Assets under administration were $8.9 billion as at June 30, 2012, compared to $8.7 billion as at December 31, 2011, and $8.0 billion as at June 30, 2011.

All per share figures disclosed below are stated on a diluted basis.

Net earnings available to shareholders for the quarter were $2.8 million or $0.09 per share, compared to $2.9 million or $0.09 per share in the second quarter of 2011. Net earnings available to shareholders for the quarter were reduced as a result of an increase in deferred income taxes of $1.2 million, or $0.04 per share, resulting from increased Ontario income tax rates enacted in June, 2012.

Adjusted cash flow from operations for the quarter was $5.2 million or $0.17 per share, compared to $4.0 million or $0.12 per share in the second quarter of 2011.

The fair value of the Company's holdings of securities as at June 30, 2012 was $368 million, or $11.43 per share, compared with $364 million, or $11.17 per share at December 31, 2011, and $403 million, or $12.23 per share at June 30, 2011.

On behalf of the Board, August 9, 2012

[signed "George Mavroudis"]

George Mavroudis
President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	June 30 2012	December 31 2011
ASSETS		
Current assets		
Cash	$ 13,772	$ 6,360
Interest-bearing deposits with banks	2,609	8,033
Accounts receivable and other	17,464	19,234
Loans receivable	1,785	6,410
Receivables from clients and broker	26,183	32,044
Prepaid expenses	1,162	1,137
	62,975	73,218
Securities holdings (note 3)	368,047	364,182
Other assets		
Deferred tax assets	3,648	3,480
Intangible assets	15,473	15,297
Equipment	1,986	2,068
Goodwill	11,111	11,111
Other	749	767
	32,967	32,723
Total Assets	$ 463,989	$ 470,123
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 4)	$ 54,899	$ 45,467
Client deposits	2,611	7,432
Accounts payable and other	17,228	25,006
Income taxes payable	419	772
Payable to clients	26,183	32,044
	101,340	110,721
Other liabilities		
Deferred tax liabilities	34,509	32,394
Total Liabilities	135,849	143,115
EQUITY		
Shareholders' equity		
Capital stock (note 5)	22,527	22,717
Treasury stock (note 6)	(17,750)	(16,063)
Contributed surplus	8,109	7,491
Retained earnings	196,501	196,729
Accumulated other comprehensive income	114,303	111,744
	323,690	322,618
Non-controlling interests	4,450	4,390
Total Equity	328,140	327,008
Total Liabilities and Equity	$ 463,989	$ 470,123

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended June 30 ($ in thousands, except per share amounts)	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 2011
Revenue				
Gross commission revenue	$ 17,219	$ 15,645	$ 35,659	$ 32,238
Commissions paid to advisors	(12,818)	(12,968)	(26,656)	(26,645)
	4,401	2,677	9,003	5,593
Management fee income, net (note 7)	9,819	9,596	19,591	19,020
Administrative services income	1,770	1,108	3,386	2,363
Dividend and interest income (note 8)	4,095	4,119	8,273	8,147
Net revenue	20,085	17,500	40,253	35,123
Expenses				
Employee compensation and benefits	9,686	8,783	19,841	17,199
Amortization	868	635	1,723	1,261
Interest	346	398	655	767
Other expenses	4,325	4,368	8,334	8,431
	15,225	14,184	30,553	27,658
Operating earnings	4,860	3,316	9,700	7,465
Net (losses) gains on securities (note 9)	(548)	(478)	(564)	306
Earnings before income taxes	4,312	2,838	9,136	7,771
Income tax expense (note 10)	1,474	37	1,919	337
Net earnings	$ 2,838	$ 2,801	$ 7,217	$ 7,434
Net earnings (loss) available to:				
Shareholders	$ 2,847	$ 2,855	$ 7,265	$ 7,453
Non-controlling interests	(9)	(54)	(48)	(19)
Net earnings	$ 2,838	$ 2,801	$ 7,217	$ 7,434
Net earnings available to shareholders per Class A and Common share (note 11):				
Basic	$ 0.09	$ 0.09	$ 0.23	$ 0.23
Diluted	0.09	0.09	0.23	0.23

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the periods ended June 30 ($ in thousands)	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 2011
Net earnings	$ 2,838	$ 2,801	$ 7,217	$ 7,434
Other comprehensive income				
Available for sale securities:				
Net change in fair value	(19,665)	(9,688)	3,273	17,678
Income tax provision (recovery) (note 10)	(1,230)	(1,109)	919	2,276
	(18,435)	(8,579)	2,354	15,402
Transfer to net earnings of unrealized losses (gains) upon disposal	65	(40)	159	525
	(18,370)	(8,619)	2,513	15,927
Changes in foreign currency translation adjustment on foreign subsidiary	1,115	(371)	46	(2,449)
Other comprehensive income (loss)	(17,255)	(8,990)	2,559	13,478
Comprehensive income (loss)	$ (14,417)	$ (6,189)	$ 9,776	$ 20,912
Comprehensive income (loss) available to:				
Shareholders	$ (14,408)	$ (6,135)	$ 9,824	$ 20,931
Non-controlling interests	(9)	(54)	(48)	(19)
	$ (14,417)	$ (6,189)	$ 9,776	$ 20,912

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended June 30	Three Months		Six Months	
($ in thousands)	**2012**	2011	**2012**	2011
Total equity, beginning of period	**$ 344,555**	$ 353,490	**$ 327,008**	$ 332,892
Shareholders' equity, beginning of period	**340,096**	351,998	**322,618**	331,856
Capital stock (note 5)				
Balance, beginning of period	**22,717**	22,934	**22,717**	22,934
Acquired and cancelled	**(190)**	--	**(190)**	--
Capital stock, end of period	**22,527**	22,934	**22,527**	22,934
Treasury stock (note 6)				
Balance, beginning of period	**(17,750)**	(13,320)	**(16,063)**	(11,443)
Acquired	**--**	(1,743)	**(1,687)**	(3,620)
Treasury stock, end of period	**(17,750)**	(15,063)	**(17,750)**	(15,063)
Contributed surplus				
Balance, beginning of period	**7,816**	6,704	**7,491**	6,549
Stock-based compensation expense	**293**	254	**618**	409
Contributed surplus, end of period	**8,109**	6,958	**8,109**	6,958
Retained earnings				
Balance, beginning of period	**195,755**	184,775	**196,729**	185,379
Net earnings available to shareholders	**2,847**	2,855	**7,265**	7,453
Dividends paid	**--**	--	**(5,392)**	(5,202)
Excess of purchase price over issue price of Company's capital stock acquired (note 5)	**(2,101)**	--	**(2,101)**	--
Retained earnings, end of period	**196,501**	187,630	**196,501**	187,630
Accumulated other comprehensive income				
Balance, beginning of period	**131,558**	150,905	**111,744**	128,437
Unrealized gains on available for sale securities, net of income taxes				
Balance, beginning of period	**136,364**	157,135	**115,481**	132,589
Net change during period	**(18,370)**	(8,619)	**2,513**	15,927
Balance, end of period	**117,994**	148,516	**117,994**	148,516
Foreign currency translation adjustment on a self-sustaining foreign subsidiary				
Balance, beginning of period	**(4,806)**	(6,230)	**(3,737)**	(4,152)
Net change during period	**1,115**	(371)	**46**	(2,449)
Balance, end of period	**(3,691)**	6,601)	**(3,691)**	6,601)
Accumulated other comprehensive income, end of period	**114,303**	141,915	**114,303**	141,915
Shareholders' equity, end of period	**323,690**	344,374	**323,690**	344,374
Non-controlling interests				
Balance, beginning of period	**4,459**	1,492	**4,390**	1,036
Net (loss) available to non-controlling interests	**(9)**	(54)	**(48)**	(19)
Net subscriptions to mutual fund subsidiaries	**--**	2,997	**108**	3,418
Non-controlling interests, end of period	**4,450**	4,435	**4,450**	4,435
Total equity, end of period	**$ 328,140**	$ 348,809	**$ 328,140**	$ 348,809

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended June 30 *($ in thousands)*	Three Months 2012	 2011	Six Months 2012	 2011
Operating activities				
Net earnings	$ 2,838	$ 2,801	$ 7,217	$ 7,434
Adjustments for:				
Income taxes (paid)	(651)	(196)	(1,220)	(475)
Income tax expense	1,474	37	1,919	337
Net loss (gain) on securities	548	478	564	(306)
Amortization of intangible assets	694	536	1,392	1,061
Amortization of equipment	174	99	331	200
Stock-based compensation	293	254	618	409
	5,370	4,009	10,821	8,660
Net change in non-cash working capital items (note 12)	2,832	(1,739)	1,250	(4,927)
Net cash from operating activities	8,202	2,270	12,071	3,733
Investing activities				
Acquisition of securities	(9,304)	(37,518)	(20,609)	(59,939)
Proceeds from sale of securities	8,848	34,489	19,661	56,089
Acquisition of intangible assets	(1,273)	(601)	(1,569)	(1,042)
Acquisition of equipment	(107)	(132)	(249)	(166)
Acquisition of subsidiary	--	--	(2,135)	--
Net cash (used in) investing activities	(1,836)	(3,762)	(4,901)	(5,058)
Financing activities				
Dividends	--	--	(5,392)	(5,202)
Acquisition of capital stock	(2,291)	--	(2,291)	--
Acquisition of treasury stock	--	(1,743)	(1,687)	(3,620)
Proceeds of bankers' acceptances	2,500	--	4,500	--
Proceeds of bank loan	--	1,643	--	3,520
Net subscriptions from non-controlling interests in mutual fund subsidiaries	--	2,997	108	3,418
Net cash from (used in) financing activities	209	2,897	(4,762)	(1,884)
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	129	(16)	72	(80)
Net change in cash, net of bank indebtedness	6,704	1,389	2,480	(3,289)
Cash, net of bank indebtedness, beginning of period	(368)	(4,541)	3,856	137
Cash, net of bank indebtedness, end of period	$ 6,336	$ (3,152)	$ 6,336	$ (3,152)
Represented by:				
Cash			$ 13,772	$ 6,629
Bank indebtedness			(7,436)	(9,781)
			$ 6,336	$ (3,152)

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, and the Company's proportionate share of the assets, liabilities, revenue and expenses of a joint venture. 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. BASIS OF PRESENTATION

These unaudited consolidated interim financial statements have been prepared 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, 2011. Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, have been omitted or condensed in these financial statements.

These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011, which are included in the Company's 2011 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.

3. SECURITIES HOLDINGS

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

As at June 30, 2012 and December 31, 2011	**2012**	2011
Available for sale securities		
Short-term securities	**$ 8,315**	$ 7,798
Mutual funds	**53,486**	54,563
Bank of Montreal	**278,760**	276,925
Other equity securities	**20,199**	16,980
	360,760	356,266
Held for trading securities		
Equity securities	**5,011**	5,550
Total securities at fair value	**365,771**	361,816
Securities at amortized cost	**2,276**	2,366
Total securities holdings	**$ 368,047**	$ 364,182

4. BANK LOANS AND BORROWINGS

As at June 30, 2012 and December 31, 2011	**2012**	2011
Bank indebtedness	**$ 7,436**	$ 2,504
Bank loan (note 6)	**14,963**	14,963
Bankers' acceptances payable	**32,500**	28,000
	$ 54,899	$ 45,467

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	**2012**		2011	
	Shares	**Amount**	Shares	Amount
i) Class A shares				
Outstanding, beginning of period	**28,872**	**$ 21,517**	28,963	$ 21,686
Converted from Common shares	**--**	**--**	50	12
Acquired and cancelled	**(252)**	**(190)**	--	--
Outstanding, end of period	**28,620**	**21,327**	29,013	21,698
ii) Common shares				
Outstanding, beginning of period	**4,971**	**1,200**	5,168	1,248
Converted to Class A shares	**--**	**--**	(50)	(12)
Outstanding, end of period	**4,971**	**1,200**	5,118	1,236
Total outstanding, end of period	**33,591**	**$ 22,527**	34,131	$ 22,934

For the six months ended June 30	**2012**		2011	
	Shares	**Amount**	Shares	Amount
iii) Class A shares				
Outstanding, beginning of period	**28,872**	**$ 21,517**	28,815	$ 21,650
Converted from Common shares	**--**	**--**	198	48
Acquired and cancelled	**(252)**	**(190)**	--	--
Outstanding, end of period	**28,620**	**21,327**	29,013	21,698
iv) Common shares				
Outstanding, beginning of period	**4,971**	**1,200**	5,316	1,284
Converted to Class A shares	**--**	**--**	(198)	(48)
Outstanding, end of period	**4,971**	**1,200**	5,118	1,236
Total outstanding, end of period	**33,591**	**$ 22,527**	34,131	$ 22,934

(c) Dividends

During the three months ended June 30, 2012, no dividends were declared (2011 – nil). During the six months ended June 30, 2012, dividends of $0.17 per share (2011 - $0.16) were declared and paid on the common and Class A shares outstanding.

(d) Issuer Bid

Under its Normal Course Issuer Bid, during the three months and six months ended June 30, 2012, the Company purchased 252 (2011 – nil) of its class A shares for $2,291 (2011 – nil), of which $2,101 (2011 – nil), the excess of the purchase price over the average issue price, was charged directly to retained earnings.

(e) Stock Option Plan

The Company maintains a Stock Option Plan for designated officers, directors and employees. Each stock option entitles the holder to purchase one Class A share, subject to certain predetermined vesting arrangements and other conditions. A summary of the changes in the Company's outstanding stock options is as follows:

For the three months ended June 30	2012 Number of shares	2012 Weighted average exercise price	2011 Number of shares	2011 Weighted average exercise price
Outstanding, beginning and end of period	--	$ --	36	$ 10.50

For the six months ended June 30	2012 Number of shares	2012 Weighted average exercise price	2011 Number of shares	2011 Weighted average exercise price
Outstanding, beginning of period	36	$ 10.50	36	$ 10.50
Expired	(36)	10.50	--	--
Outstanding, end of period	--	--	36	$ 10.50

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, which has been used to finance purchases of the shares (note 4).

(a) Summary of changes

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

For the three months ended June 30	2012 Shares	2012 Amount	2011 Shares	2011 Amount
Balance, beginning of period	2,126	$ 17,750	1,680	$ 13,320
Shares acquired	--	--	172	1,743
Balance, end of period	2,126	$ 17,750	1,852	$ 15,063

For the six months ended June 30	2012 Shares	2012 Amount	2011 Shares	2011 Amount
Balance, beginning of period	1,954	$ 16,063	1,479	$ 11,443
Shares acquired	172	1,687	373	3,620
Balance, end of period	2,126	$ 17,750	1,852	$ 15,063

(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	2012		2011	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,552**	**$ 8.86**	954	$ 8.32
Entitlements provided	**--**	**--**	347	9.69
Option-like entitlements, end of period	**1,552**	**$ 8.86**	1,301	$ 8.68

For the six months ended June 30	2012		2011	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,402**	**$ 8.76**	954	$ 8.32
Entitlements provided	**150**	**9.78**	347	9.69
Option-like entitlements, end of period	**1,552**	**$ 8.86**	1,301	$ 8.68

Option-like entitlements provided had a fair value of $ Nil (2011 - $1,384) for the three months ended June 30, 2012, and $420 (2011 - $1,384) for the six months ended June 30, 2012. 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 are the key assumptions used in the valuation of the entitlements granted during the six months ended June 30, 2012:

For the six months ended June 30	**2012**
Average purchase price per share	**$ 9.78**
Vesting period in years	**5.00**
Average expected term to exercise in years	**10.00**
Risk-free interest rate	**2.45%**
Expected price volatility	**23.17%**
Expected dividends per share, per annum	**$ 0.17**

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**	
	Number of shares			
	2012	2011	**2012**	2011
Equity-based entitlements, beginning of the period	**574**	525	**552**	525
Entitlements provided	**--**	26	**22**	26
Equity based entitlements, end of period	**574**	551	**574**	551

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 had a fair value of $ Nil (2011 - $266) for the three months ended June 30, 2012, and $220 (2011 - $266) for the six months ended June 30, 2012.

7. MANAGEMENT FEE INCOME, NET

Management fee income is presented net of referral fees which are paid to referring agents, amounting to $503 for the three months ended June 30, 2012 (2011 - $422) and $965 for the six months ended June 30, 2012 (2011 - $814).

8. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2012	2011	**2012**	2011
Dividend income	**$ 3,726**	$ 3,807	**$ 7,451**	$ 7,562
Interest income	**369**	312	**822**	585
	$ 4,095	$ 4,119	**$ 8,273**	$ 8,147

9. NET (LOSSES) GAINS ON SECURITIES

Net (losses) gains on securities are composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2012	2011	**2012**	2011
Held for trading securities (a)	**$ (462)**	$ (455)	**$ (386)**	$ (251)
Available for sale securities	**(86)**	(23)	**(178)**	557
Net (losses) gains on securities	**$ (548)**	$ (478)	**$ (564)**	$ 306

(a) Net losses on held for trading securities include net losses on securities both owned and sold short by consolidated mutual funds.

10. INCOME TAX EXPENSE

During the three months ended June 30, 2012, increases to income tax rates applicable to future periods were substantively enacted. As a result, there are included in income tax expense on the consolidated statement of operations for the period an amount of approximately $1,150, and on the consolidated statement of comprehensive income for the period an amount of approximately $680, to record net adjustments to deferred tax assets and liabilities.

11. AVERAGE NUMBER OF SHARES OUTSTANDING

The following are the weighted average number of Class A and Common shares outstanding (in thousands):

For the periods ended June 30	Three Months		Six Months	
	2012	2011	**2012**	2011
Basic	**31,661**	32,350	**31,746**	32,458
Effect of outstanding entitlements and options from stock based compensation plans	**513**	668	**--**	161
Diluted	**32,174**	33,018	**31,746**	32,619

12. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

For the period ended June 30	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 2011
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	$ 732	$ 4,489	$ 5,446	$ 7,910
Accounts receivable and other	18	(4,786)	1,780	(5,274)
Loans receivable	1,557	156	4,580	516
Receivables from clients and broker	6,791	(5,900)	5,861	916
Prepaid expenses	88	133	(23)	213
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	(1,383)	(4,304)	(4,885)	(7,644)
Accounts payable and other	1,820	2,573	(5,648)	(648)
Payable to clients	(6,791)	5,900	(5,861)	(916)
Net Change	$ 2,832	$(1,739)	$ 1,250	$ (4,927)

13. 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 relates to the earning of sales commissions and administrative services revenue from assets under administration; 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 intra-segment revenues. The following table discloses certain information about these segments:

For the three months ended June 30	Investment Management 2012	Investment Management 2011	Financial Advisory 2012	Financial Advisory 2011	Corporate Activities and Investments 2012	Corporate Activities and Investments 2011	Consolidated 2012	Consolidated 2011
Gross commission revenue	$ --	$ --	$ 17,219	$ 15,645	$ --	$ --	$ 17,219	$ 15,645
Commissions paid to advisors	--	--	(12,818)	(12,968)	--	--	(12,818)	(12,968)
	--	--	4,401	2,677	--	--	4,401	2,677
Management fee income, net	9,819	9,596	--	--	--	--	9,819	9,596
Administrative services income	415	178	1,354	929	1	1	1,770	1,108
Dividend and interest income	9	134	123	115	3,963	3,870	4,095	4,119
Net revenue	10,243	9,908	5,878	3,721	3,964	3,871	20,085	17,500
Expenses								
Employee compensation and benefits	5,112	4,681	2,957	2,050	1,617	2,052	9,686	8,783
Amortization	92	49	743	571	33	15	868	635
Interest	71	46	18	10	257	342	346	398
Other expenses	3,355	2,851	2,366	2,490	(1,396)	(973)	4,325	4,368
	8,630	7,627	6,084	5,121	511	1,436	15,225	14,184
Operating earnings	1,613	2,281	(206)	(1,400)	3,453	2,435	4,860	3,316
Net (losses) on securities	--	--	--	--	(548)	(478)	(548)	(478)
Earnings before taxes	1,613	2,281	(206)	(1,400)	2,905	1,957	4,312	2,838
Income tax expense	324	536	(108)	(323)	1,258	(176)	1,474	37
Net earnings	$ 1,289	$ 1,745	$ (98)	$ (1,077)	$ 1,647	$ 2,133	$ 2,838	$ 2,801
Net earnings available to:								
Shareholders	$ 1,289	$ 1,745	$ (137)	$ (1,077)	$ 1,695	$ 2,187	$ 2,847	$ 2,855
Non-controlling interests	--	--	39	--	(48)	(54)	(9)	(54)
	$ 1,289	$ 1,745	$ (98)	$ (1,077)	$ 1,647	$ 2,133	$ 2,838	$ 2,801
Capital expenditures								
Intangible assets	$ 33	$ 54	$ 1,233	$ 547	$ 7	$ --	$ 1,273	$ 601
Equipment	14	10	61	28	32	94	107	132

For the six months ended June 30	Investment Management 2012	Investment Management 2011	Financial Advisory 2012	Financial Advisory 2011	Corporate Activities and Investments 2012	Corporate Activities and Investments 2011	Consolidated 2012	Consolidated 2011
Gross commission revenue	$ --	$ --	$ 35,659	$ 32,238	$ --	$ --	$ 35,659	$ 32,238
Commissions paid to advisors	--	--	(26,656)	(26,645)	--	--	(26,656)	(26,645)
	--	--	9,003	5,593	--	--	9,003	5,593
Management fee income, net	19,591	19,020	--	--	--	--	19,591	19,020
Administrative services income	776	366	2,609	1,992	1	5	3,386	2,363
Dividend and interest income	98	254	251	233	7,924	7,660	8,273	8,147
Net revenue	20,465	19,640	11,863	7,818	7,925	7,665	40,253	35,123
Expenses								
Employee compensation and benefits	10,366	9,244	5,950	4,101	3,525	3,854	19,842	17,199
Amortization	167	99	1,489	1,133	67	29	1,723	1,261
Interest	140	92	36	21	479	654	655	767
Other expenses	5,849	5,655	4,773	4,601	(2,288)	(1,825)	8,334	8,431
	16,522	15,090	12,248	9,856	1,783	2,712	30,553	27,658
Operating earnings	3,943	4,550	(385)	(2,038)	6,142	4,953	9,700	7,465
Net gains (losses) on securities	--	--	--	--	(564)	306	(564)	306
Earnings before taxes	3,943	4,550	(385)	(2,038)	5,578	5,259	9,136	7,771
Income tax expense	822	1,093	(118)	(462)	1,215	(294)	1,919	337
Net earnings	$ 3,121	$ 3,457	$ (267)	$ (1,576)	$ 4,363	$ 5,553	$ 7,217	$ 7,434
Net earnings available to:								
Shareholders	$ 3,121	$ 3,457	$ (376)	$ (1,576)	$ 4,520	$ 5,572	$ 7,265	$ 7,453
Non-controlling interests	--	--	109	--	(157)	(19)	(48)	(19)
	$ 3,121	$ 3,457	$ (267)	$ (1,576)	$ 4,363	$ 5,553	$ 7,217	$ 7,434
Capital expenditures:								
Intangible assets	$ 86	$ 217	$ 1,476	$ 825	$ 7	$ --	$ 1,569	$ 1,042
Equipment	14	21	98	45	137	100	249	166
As at June 30, 2012 and December 31, 2011								
Segment assets and liabilities:								
Assets	$ 25,689	$ 30,643	$ 70,182	$ 76,319	$ 368,118	$ 363,161	$ 463,989	$ 470,123
Liabilities	17,425	28,394	39,074	39,579	79,350	75,142	135,849	143,115

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

For the 3 months ended June 30	Canada 2012	Canada 2011	Rest of the World 2012	Rest of the World 2011	Consolidated 2012	Consolidated 2011
Net revenue	$ 18,707	$ 16,215	$ 1,378	$ 1,285	$ 20,085	$ 17,500

For the 6 months ended June 30	Canada 2012	Canada 2011	Rest of the World 2012	Rest of the World 2011	Consolidated 2012	Consolidated 2011
Net revenue	$ 37,475	$ 32,752	$ 2,778	$ 2,371	$ 40,253	$ 35,123
As at June 30, 2012 and December 31, 2011						
Segment non-current assets:						
Intangible assets	$ 15,447	$ 15,269	$ 26	$ 28	$ 15,473	$ 15,297
Equipment	1,496	1,567	490	501	1,986	2,068
Goodwill	11,111	11,111	--	--	11,111	11,111

14. 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 19 and 20 of the Company's Second Quarter 2012 Interim Report. The following are the more significant risks associated with financial instruments to which the Company is subject:

(a) 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: currency risk, interest rate risk and price risk.

(i) Currency Risk
The Company's main direct exposure to currency risk is on its investments in its foreign subsidiaries, amounting to $75,198 US ($76,555 Canadian) at fair value as at June 30, 2012 ($72,598 US; $73,832 Canadian – December 31, 2011). Changes in the value of these investments caused by changes in the US dollar exchange rate are reflected in the Consolidated Statement of Comprehensive Income in the period in which the change occurs. A strengthening of the Canadian dollar against the US dollar by 10%, with all other factors remaining unchanged, would result in a loss of $7,655 Canadian ($7,383 Canadian – December 31, 2011) being recorded in other comprehensive income in the Consolidated Statement of Comprehensive Income. A weakening of the Canadian dollar against the US dollar would have an equal but opposite effect.

(ii) Interest Rate Risk
The Company is exposed to interest rate risk in its international banking operations, through the assets interest-bearing deposits with banks of $2,609 ($8,033 – December 31, 2011) and loans receivable of $1,785 ($6,410 – December 31, 2011), and the client deposits liability of $2,611 ($7,432 – December 31, 2011). This risk is managed through the matching of interest rates and maturities on these balances.

(iii) Price Risk
The Company is exposed to price risk with its securities holdings, and the amounts due on securities sold short. Unrealized changes in the values of its securities holdings are recorded as unrealized gains or losses in the Consolidated Statements of Comprehensive Income (for available for sale securities) and as gains or losses in the Consolidated Statements of Operations (for held for trading securities and securities sold short). This risk is managed through the use of professional in-house portfolio management expertise, each of which takes a disciplined approach to investment management. The long and short 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 realized or unrealized gain or loss which would be recorded as a result of a 10% change in the market prices in each region:

As at June 30, 2012 and December 31, 2011	**2012**		2011	
	Fair value of marketable investments excluding Bank of Montreal shares and short-term investments	**Unrealized gain or loss from 10% market change in region**	Fair value of marketable investments excluding Bank of Montreal shares and short-term investments	Unrealized gain or loss from 10% market change in region
Canada	**$ 28,155**	**± $ 2,816**	$ 29,337	± $ 2,934
United States	**9,686**	**± 969**	9,263	± 926
Rest of the World	**49,174**	**± 4,917**	46,293	± 4,629
Total	**$ 87,015**	**± $ 8,702**	$ 84,893	± $ 8,489

(b) Concentration Risk

The Company is exposed to concentration risk associated with the $278,760 ($276,925 – December 31, 2011) 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 $27,876 ($27,693 – December 31, 2011) being recorded in the Consolidated Statement of Comprehensive Income.

(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, 2012 and December 31, 2011	2012	2011
Cash	**$ 13,772**	$ 6,360
Interest-bearing deposits with banks	**2,609**	8,033
Accounts receivable and other	**17,464**	19,234
Loans receivable	**1,785**	6,410
Receivable from clients and broker	**26,183**	32,044
Securities at amortized cost – promissory notes	**2,276**	2,366
Loan guarantees	**482**	482
Total, before collateral and credit enhancements	**$ 64,571**	$ 74,929

The Company considers its credit risk to be low. The 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 and loans receivable is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary, and by the offshore bank subsidiary, respectively. There are controls on the amounts that these clients may borrow, depending upon the securities that are pledged. The operations and results of the issuer of the promissory notes are closely monitored, and the interest rate on the notes reflects the issuer's credit quality. Offsetting the credit exposure on the loan guarantees are marketable securities pledged by the borrowers, the market values of which the Company actively monitors on a continuous basis.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages this financial risk by maintaining a portfolio of securities holdings, and by arranging for significant borrowing facilities with major Canadian banks.

15. FINANCIAL STATEMENT REVIEW

These interim 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 six months ended June 30, 2012 and the comparative period in the year 2011, as well as to certain prior annual and quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2011 Annual Report. This discussion and analysis has been prepared as of August 9, 2012.

Additional information relating to Guardian Capital Group Limited 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. Guardian serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: investment management; financial advisory; and corporate activities and investments. As at June 30, 2012, Guardian had $16.9 billion in assets under management and $8.9 billion of financial advisory assets under administration. Guardian's assets include a diversified portfolio of securities which, together with its investment in Bank of Montreal shares, had a fair value of approximately $368 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. One of the measures that Guardian uses is not in accordance with International Financial Reporting Standards ("IFRS"). 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 this measure in analyzing Guardian's results.

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

For the period ended June 30	**Three Months**		**Six Months**	
($ in thousands)	**2012**	2011	**2012**	2011
Net cash from operating activities, as reported	**$ 8,202**	$ 2,270	**$12,071**	$ 3,733
Net change in non-cash working capital items	**(2,832)**	1,739	**(1,250)**	4,927
Cash flow from operations before change in working capital items	**5,370**	4,009	**10,821**	8,660
Less: Available to non-controlling interests	**128**	2	**175**	11
Adjusted cash flow from operations	**$ 5,242**	$ 4,007	**$10,646**	$ 8,649

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	**Three Months**		**Six Months**	
($ in thousands, except per share amounts)	**2012**	2011	**2012**	2011
Net revenues	**$ 20,085**	$ 17,500	**$ 40,253**	$ 35,123
Expenses	**15,225**	14,184	**30,553**	27,658
Operating earnings	**4,860**	3,316	**9,700**	7,465
Net (losses) gains on securities	**(548)**	(478)	**(564)**	306
Earnings before income taxes	**4,312**	2,838	**9,136**	7,771
Income tax expense	**1,474**	37	**1,919**	337
Net earnings	**$ 2,838**	$ 2,801	**$ 7,217**	$ 7,434
Net earnings available to shareholders	**$ 2,847**	$ 2,855	**$ 7,265**	$ 7,453
Adjusted cash flow from operations	**$ 5,242**	$ 4,007	**$ 10,646**	$ 8,649
Diluted per share amounts				
Net earnings available to shareholders	**$ 0.09**	$ 0.09	**$ 0.23**	$ 0.23
Adjusted cash flow from operations	**$ 0.17**	$ 0.12	**$ 0.34**	$ 0.27

As at	**2012**		2011	
($ in millions, except per share amounts)	**June 30**	**March 31**	December 31	June 30
Assets under management	**$ 16,934**	**$ 16,950**	$ 15,928	$ 16,159
Assets under administration	**$ 8,890**	**$ 9,090**	$ 8,654	$ 8,042
Value of corporate holdings of securities	**$ 368**	**$ 387**	$ 364	$ 403
Value of corporate holdings of securities per share, diluted	**$ 11.43**	**$ 11.92**	$ 11.17	$ 12.23

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 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)*	**2012**		2011	
	June 30	**March 31**	December 31	June 30
Institutional	**$15,418**	**$15,460**	$14,489	$14,708
Private wealth	**1,408**	**1,379**	1,331	1,321
International	**108**	**111**	108	130
Total	**$16,934**	**$16,950**	$15,928	$16,159

Total assets under management ("AUM") at Guardian at June 30 were substantially unchanged from March 31, at $16.9 billion, but significantly increased from $15.9 billion at December 31, 2011 and $16.2 billion at June 30, 2011. The increase in assets for the year to date resulted substantially from net new monies received from new and existing clients.

The management fees for the second quarter of 2012 were $9.8 million, net of referral fee payments, substantially unchanged from the first quarter, and 2% higher than the fees for the second quarter of 2011.

Institutional management fees earned in the second quarter increased to $7.5 million from $7.3 million a year earlier, a 3% increase. Private wealth management fees earned in the quarter amounted to $1.7 million, an increase of 6% from $1.6 million a year earlier. Management fees earned from international clients were $0.6 million in the second quarter of 2012, marginally lower than the $0.7 earned one year earlier.

Financial Advisory Revenues

Net sales commission revenue earned from the financial advisory business is generated from the sale of mutual funds, securities and insurance, as well as from continuing fees related to assets under administration. This net revenue was approximately $4.4 million in the second quarter of 2012, compared with $4.6 million for the first quarter, but 64% greater than the $2.7 million in the first quarter of the prior year. This increase is largely due to the inclusion of revenues from IDC Financial, which was acquired by Guardian on July 1, 2011 and is providing significant net revenue.

Administrative Services Income

Administrative services income, composed substantially of registered plan and other fees earned in the financial advisory area, and also trust and corporate administration fees earned in the international area, amounted to $1.8 million for the second quarter, slightly ahead of the first quarter and a 60% increase from the $1.1 million in 2011. The increase resulted from planned rate increases in the financial advisory area and fees from additional client activities in the international area. These fees are not directly impacted by fluctuations in the financial markets.

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)	**2012**	2011	**2012**	2011
Dividend income	**$ 3,726**	$ 3,807	**$ 7,451**	$ 7,562
Interest income	**369**	312	**822**	585
Total dividend and interest income	**$ 4,095**	$ 4,119	**$ 8,273**	$ 8,147

Dividend income is composed largely of the quarterly dividends received on the Bank of Montreal investment, while less significant amounts are received from the corporate investment portfolio and consolidated mutual funds. Interest income was higher than in the previous year as a result of the interest earned on the promissory note receivable, partially offset by a reduction in interest earned on the reduced balance of loans receivable.

Net (Losses) Gains on Securities

For the periods ended June 30	**Three Months**		**Six Months**	
($ in thousands)	**2012**	2011	**2012**	2011
(Losses) in consolidated mutual funds	**$ (462)**	$ (455)	**$ (386)**	$ (251)
(Losses) gains on securities directly held	**(86)**	(23)	**(178)**	557
Net (losses) gains	**$ (548)**	$ (478)	**$ (564)**	$ 306

Losses in consolidated mutual funds reflect changes in the fair value of the securities in which the mutual funds invest, as a result of the market movements during the second quarter. The timing of sales transactions in the directly-held portfolio produced small losses in 2012, whereas in 2011 they had produced significant gains.

Expenses

Guardian's operating expenses were $15.2 million in the second quarter of 2012, compared with $14.2 million in 2011, an increase of approximately of $1.0 million or 7%, compared with the $2.1 million or 12% increase in net revenue in the period. The increase in expenses is largely due to the inclusion of expenses from IDC Financial, which was acquired on July 1, 2011. The lower interest expense in the period is due to lower average interest rates during the period compared to the same period one year earlier.

NET EARNINGS AVAILABLE TO SHAREHOLDERS AND ADJUSTED CASH FLOW FROM OPERATIONS

For the period ended June 30	**Three Months**		**Six Months**	
($ in thousands)	**2012**	2011	**2012**	2011
Net earnings available to shareholders	**$ 2,847**	$ 2,855	**$ 7,265**	$ 7,453
Earnings per share, diluted	**$ 0.09**	$ 0.09	**$ 0.23**	$ 0.23
Adjusted cash flow from operations	**$ 5,242**	$ 4,007	**$10,646**	$ 8,649
Adjusted cash flow from operations per share, diluted	**$ 0.17**	$ 0.12	**$ 0.34**	$ 0.27

Net earnings available to shareholders for the second quarter of 2012 were $2.8 million, substantially unchanged from a year earlier. Adjusted cash flow from operations for the quarter amounted to $5.2 million, compared to $4.0 million for 2011. The current differences between earnings per share and cash flow per share arise primarily due to the impact of amortization expenses, deferred income tax expense and stock-based compensation, as well as the exclusion of gains or losses on sales of securities from the calculation of adjusted cash flow from operations.

LIQUIDITY AND CAPITAL RESOURCES

The strength of Guardian's statement of financial position 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. Guardian's total bank borrowings at June 30, 2012 amounted to $55.0 million, compared with $54.7 million at June 30, 2011. The total credit available, at attractive terms, under the three arrangements amounts to $66.0 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, 2012 had a fair value of $364 million, or $11.43 per share, diluted, compared with $364 million, or $11.17 per share, diluted, as at December 31, 2011, and $403 million, or $12.23 per share, diluted, at June 30, 2011. The following is a summary of Guardian's securities holdings:

CORPORATE HOLDINGS OF SECURITIES

As at	**2012**	2011	
($ in thousands, except per share amounts)	**June 30**	December 31	June 30
Securities at fair value:			
Short-term securities	**$ 8,315**	$ 7,798	$ 10,640
Mutual funds	**53,486**	54,563	48,955
Bank of Montreal shares	**278,760**	276,925	303,709
Other equity securities	**25,210**	22,530	37,715
Total securities at fair value	**365,771**	361,816	401,019
Promissory notes at amortized cost	**2,276**	2,366	2,044
Total securities holdings	**$ 368,047**	$ 364,182	$ 403,063
Total security holdings per share, diluted	**$ 11.43**	$ 11.17	$ 12.23

Guardian's holdings of securities are managed independently of our clients' assets, except for those of our assets that are invested in Guardian's mutual funds for which Guardian is an advisor.

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, 2012 *($ in thousands)*	**Total**	**Less than One year**	**One to three years**	**Three to five years**	**After five years**
Bank loans and borrowings	$ 54,899	$ 54,899	$ --	$ --	$ --
Client deposits	2,611	2,611	--	--	--
Accounts payable and other	17,228	17,228	--	--	--
Payable to clients	26,183	26,183	--	--	--
Operating lease obligations	16,922	1,688	2,832	2,712	9,690
Total contractual obligations	$117,843	$102,609	$ 2,832	$ 2,712	$ 9,690

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, is offset by the Receivable from Clients and Broker, while the Client Deposits, in the offshore banking subsidiary, are supported by the Interest-Bearing Deposits with Banks and Loans Receivable.

SUMMARY OF QUARTERLY RESULTS

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

For the quarters ended *($ in thousands)*	**Jun 30, 2012**	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010
Net revenue	**$ 20,085**	$ 20,168	$ 20,089	$ 18,949	$ 17,500	$ 17,623	$ 17,485	$ 16,051
Operating earnings	**4,860**	4,840	5,324	4,344	3,316	4,149	4,032	3,303
Net gains (losses) on securities	**(548)**	(16)	1,613	(1,090)	(478)	784	2,876	854
Net earnings available to shareholders	**2,847**	4,418	5,547	3,457	2,855	4,598	6,679	4,050
Shareholders' equity	**323,690**	340,096	322,618	331,718	344,374	351,998	331,856	331,410
(in $)								
Per average per Class A and Common Share								
Net earnings								
- Basic	**$ 0.09**	$ 0.14	$ 0.17	$ 0.11	$ 0.09	$ 0.14	$ 0.20	$ 0.12
- Diluted	**0.09**	0.14	0.17	0.10	0.09	0.14	0.20	0.12
Shareholders' equity								
- Basic	**$ 10.29**	$ 10.72	$ 10.12	$ 10.40	$ 10.67	$ 10.85	$ 10.16	$ 10.07
- Diluted	**$ 10.06**	$ 10.48	$ 9.90	$ 10.18	$ 10.45	$ 10.63	$ 10.01	$ 9.93

Management fees earned in the investment management segment are generally not subject to seasonal fluctuations. There is a degree of seasonality in the financial advisory segment, with some concentration of commission revenue in the first quarter of each year, relating to the traditional "RSP season". However, most of the increase in net revenue in the second half of 2011 and the current year came from the additional net revenue earned by the IDC WIN subsidiary, after the acquisition of IDC Financial on July 1, 2011.

With the exception of the effect of this additional net revenue, quarterly operating earnings have been relatively stable over the periods shown above. The net earnings available to shareholders for the quarter ended June 30, 2012 have been reduced because of the increase in deferred income taxes resulting from increased Ontario income taxes substantively enacted in June, 2012. This increase in taxes amounted to $1.15 million ($0.04 per share, diluted). 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, less this provision for future income taxes.

Since gains and losses are recorded on disposal of available for sale securities 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 or losses from securities each quarter can fluctuate, as shown in the quarterly results shown above. The significant net gains recorded in the fourth quarters of 2010 and 2011 were largely responsible for the increases in net earnings available to shareholders in those quarters.

CRITICAL ACCOUNTING ESTIMATES

Guardian periodically assesses its assets for any impairment in their value. If it is determined that there has been a material impairment in the value of an asset which is other than temporary, the difference between current fair value and the original cost less any previous writedowns is included in Guardian's operating results. Included in this assessment are intangible assets, goodwill and certain securities.

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 14 to the Consolidated Financial Statements, contained in Guardian's second quarter 2012 Interim 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 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 mutual 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 $278.8 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.

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. The Company 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.

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.

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 $66 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, net earnings and other comprehensive income in recent years. The recent enactment of new tax rates applicable to future periods by the province of Ontario has resulted in the Company recording in the current quarter additional income tax expense and reduced net earnings and other comprehensive income.

Performance and Competition Risks

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. We are fully aware of clients' expectations and we communicate appropriately with our clients to develop, report on and comply with client mandates on a continuous basis.

Another risk is competition. Our ability to compete is enhanced by the high quality of our management team, the 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 offerings to market conditions and client needs.

As a result of these risks related to its clients, Guardian has the risk of a reduction in its revenues due to the possible loss of clients. This risk is managed by having strong marketing efforts, to replace lost revenue with new client revenues.

OUTLOOK

Volatility returned to all markets in the second quarter, due to weaker U.S. economic data, slower Asian growth and European political uncertainty over the resolution to the banking crisis and debt levels. China continued easing in an attempt to engineer a soft landing, while the ECB, in a widely anticipated move, cut rates just after quarter-end. In early June, the Bank of Canada left the main interest rate at 1% for the fourteenth consecutive decision, extending the bank's longest pause since the 1950s.

The need for government intervention in the Eurozone, in the finances of the U.S., and in managing the slowing growth in emerging markets, will be things that we can expect to be with us for a long time. The problems of each of these geographies cannot be legislated away or resolved in a short period of time. Reliance on governments will continue to be high for the foreseeable future; these are the realities we will face in the near term. Torn between the World's fragile economic state and inexpensive valuations, we believe the stock markets around the world will continue in an oscillating pattern. However, we expect the United States will eventually reverse the course of being a perpetual borrower, Europe will eventually resolve its debt and growth issues, and Emerging Markets will resume their growth. Accordingly, we remain confident that in the longer term, stocks will have more potential over the next decade than bonds, given today's starting point for bond yields.

Despite a decline of 5.67% in the main Canadian Equity markets, at June 30th Guardian's assets under management remained flat from the prior quarter, due to strong relative performance across several of our equity and fixed income strategies and new client in-flows in both the institutional and retail intermediary distribution channels. Guardian's financial strength, independence, stability, and competitive range of equity and fixed income strategies, diversified by degrees of risk and geography, position the company to compete for net new growth in assets under management in both of these investment management markets. During these volatile equity markets, Guardian has managed to add new mandates and clients, which offset the negative impacts of down markets such as the past quarter. Going forward, the new assets under management gained in recent quarters will position the company to capture more meaningful growth from any sustained market appreciation.

Guardian's financial advisory business, through its subsidiary Worldsource Wealth Management, continues to show improved operating earnings, with strong earnings from its Life Insurance Managing General Agency and better revenue and expense management in its Mutual Fund and Securities dealerships. We expect continued success in improved operating earnings with the delivery of strong Life Insurance net sales, and the recruitment of additional advisors.

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. The ability to support long-term strategic decisions continues to allow Guardian to seek and attract top-performing talent across its businesses.

GUARDIAN CAPITAL | 50 YEARS Our history. Your future.

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