Guardian

GUARDIAN CAPITAL GROUP LIMITED
Report to Shareholders

SECOND QUARTER 2016

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the three and six months ended June 30, 2016. 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)	**2016**	2015	**2016**	2015
Net revenues	**$ 34,191**	$ 33,066	**$ 69,261**	$ 65,370
Operating earnings	**10,300**	11,390	**21,650**	21,866
Net gains	**1,028**	602	**17,806**	3,789
Net earnings available to shareholders	**8,887**	9,604	**32,705**	20,914
EBITDA	**$ 11,607**	$ 12,654	**$ 24,085**	$ 24,214
Adjusted cash flow from operations	**9,435**	10,544	**19,018**	18,685
Per share:				
Net earnings available to shareholders	**$ 0.30**	$ 0.31	**$ 1.09**	$ 0.68
EBITDA	**0.39**	0.41	**0.80**	0.79
Adjusted cash flow from operations	**0.32**	0.34	**0.64**	0.61

As at	**2016**	**2015**	
($ in millions, except per share amounts)	**June 30**	December 31	June 30
Assets under management	**$ 25,654**	$ 24,278	$ 25,007
Assets under administration	**15,425**	14,943	14,821
Shareholders' equity	**514**	504	474
Corporate holding of securities	**540**	540	515
Per share:			
Shareholders' equity	**$ 17.10**	$ 16.55	$ 15.32
Corporate holding of securities	**17.96**	17.72	16.64

Summary

The Company's assets under management as at June 30, 2016, were $25.7 billion, an increase of 6% from $24.3 billion at the end of 2015 and an increase of 3% from $25.0 billion at June 30, 2015. Assets under administration were $15.4 billion at the end of the current quarter, up 3% from $14.9 billion at the end of 2015 and a 4% increase from $14.8 billion at June 30, 2015.

The Company's operating earnings for the quarter ended June 30, 2016 were $10.3 million, compared to $11.4 million in the same period one year earlier. The decrease in operating earnings this quarter is reflective of the Company's strategic decision to reinvest in the business in the form of key hires and other expenditures. These investments are expected to continue to have a dampening effect on earnings in the short-term, but lead to improved future operating earnings and long-term value.

Net gains of $1.0 million for the current quarter are up slightly from $0.6 million in the same period a year earlier.

Net earnings available to shareholders for the current quarter were $8.9 million, or $0.30 per share, compared to $9.6 million, or $0.31 per share, in the same period a year earlier, resulting from the decrease in operating earnings, as described above.

EBITDA for the current quarter was $11.6 million, or $0.39 per share, compared to $12.7 million, or $0.41 per share in 2015. Adjusted cash flow from operations for the current quarter was $9.4 million, or $0.32 per share, compared to $10.5 million, or $0.34 per share in 2015. The decreases in each of these measures reflect the decrease in operating earnings for the quarter. These two non-IFRS financial measures used by the Company are defined in its quarterly Management's Discussion and Analysis, including a reconciliation of these measures to their most comparable IFRS measures.

The Company's shareholders' equity as at June 30, 2016 was $514 million or $17.10 per share, compared to $504 million, or $16.55 per share at December 31, 2015 and $474 million, or $15.32 per share as at June 30, 2015. The Company's corporate holdings of securities as at June 30, 2016 was $540 million, or $17.96 per share, compared to $540 million, or $17.72 per share, as at December 31, 2015 and $515 million, or $16.64 per share, as at June 30, 2015.

Commentary and Outlook

During the second quarter, world equity markets continued to recover from the growth scare of early 2016; however, the returns were quite variable from country to country. North American markets were positive, with the S&P 500 up 2.5% and the S&P TSX Composite returning 5.1%, while large Emerging Markets indices also had generally positive returns. Most large European markets, and the Eurozone's peripheral markets, were negative. Surprisingly, the United Kingdom performed strongly despite briefly paralyzing world markets by voting to leave the European Union. Commodities generally trended flat to upwards, and oil and gold in particular had strong positive returns in the quarter, providing a welcome tailwind to producers of those commodities. Ultimately, global economic growth continues to be subpar, and most signs point to this continuing. As a result, monetary authorities worldwide seem to be becoming more accommodative and, in particular, the Bank of England and the Federal Reserve (the Fed), which were looking to reduce monetary stimulus, have been pushed into a more dovish outlook by the BREXIT vote.

The Canadian economy has been muddling along with modestly positive performance in 2016, despite headwinds that include the potential of an over-heating domestic housing market, low commodity prices, and the Alberta wildfires (which led to significant temporary production curtailments in the Canadian oil sands). GDP had remained positive since October 2015, including 1.5% in April, but reduced by 0.6% in May, 2016. The U.S. economy is still delivering modest and stable growth, and activity in the U.S. market was dominated by speculation regarding the pace of interest rate increases by the Fed, the potential implications of Brexit, and the ascendency of Hillary Clinton and Donald Trump as the Democratic and Republican presidential candidates for the November U.S. presidential election. During the quarter, the Fed continued to hold rates steady, but expectations in the market began to build for a 25 basis point rate increase at the July meeting. These forecasts were cut following the Brexit "leave" outcome, and Fed funds futures now indicate that the market is not anticipating any rate increases from the Fed this year (although the Fed's own, and now dated forecast, calls for two rate hikes).

Positive returns in all underlying asset classes managed by the Company resulted in second quarter increases in the AUM of 3.4% to $25.7 billion, and in the AUA of 3.0% to $15.4 billion. The slight decline in the overall level of the TSX over the past 12 months resulted in flat investment management revenues versus Q2 2015. The AUA, which are more correlated to balanced strategies, grew 4% over the same period. Net revenues for the Company were up 3% for the three months ended June 30, 2016, compared to the same period in 2015. The growth in net revenues compared to the comparable period in the prior year is largely due to the growth in commission revenue from the financial advisory segment, in particular the Managing General Agency ("MGA") subsidiary, offset by declines in dividend and interest income from the corporate securities portfolio. The net commission revenue in the second quarter was $9.3 million, an increase of 14% compared to $8.2 million a year earlier. The MGA business, which is less correlated to the equity markets, was the largest contributor to the growth, generating $5.9 million in net commission revenue in the quarter, a 20% increase from the prior year. Management fee income, which is generated by the investment management business segment, was substantially unchanged from the second quarter of 2015.

Operating earnings for the three months ended June 30, 2016 were $10.3 million, compared to $11.4 million in the same period in 2015. The lower operating earnings for the quarter largely reflect our strategic decision to redeploy capital into key parts of our business and to reinvest in the business in the form of key hires and other expenditures.

In Q1 2016, we reported on our reallocation of a portion of our investment in the Bank of Montreal ("BMO") shares to the Fundamental Global Equity UCITS fund managed by our UK subsidiary, to achieve scale in this fund. Having higher AUM in our UCITS is expected to encourage investment from third parties, who may otherwise be reluctant to invest in a relatively small fund, thus accelerating the overall growth in our UK operation. However, the transfer of our investment from BMO to the UCITS in the preceding quarter has resulted in lower dividend income being earned in the current quarter, than in the prior year.

Also, in line with our strategy, we added key resources and increased other expenditures as we continue to focus our efforts on building long-term sustainable operating earnings. These planned additional investments are expected to have a dampening effect on earnings, over the short term. Our investment to build the UK-based global and emerging market equity investment management team and the domestic real estate investment management business incurred operating losses in Q2 of $0.9 million, up from to $0.7 million in the same quarter last year. In addition, we recently added four experienced United States-based wholesaling resources in order to expand our retail intermediary distribution capability in the United States. In the financial advisory segment, we added additional resources and increased investments in technology, marketing and other operating expenses to prepare for future growth. We expect that these short-term costs, and their effect on operating earnings, will lead to improved future operating earnings and long-term value.

The firm continues to have frequent and high quality discussions with prospective clients regarding these new initiatives, and that our efforts have begun to be rewarded. For example as third party investors have increased their investment in the UCITS by just under $40 million since the beginning of the year. Overall firm-wide, net new asset flows remained neutral in the quarter, as the re-balancing from retail intermediary clients out of Canadian equity income solutions has eased, with the recent rebound in both commodity prices and the Canadian dollar. The firm's global systematic equity investment team continues to deliver a credible long-term track record in global equity income solutions, and has provided a meaningful offset to the negative flows from the domestic asset class over the past twelve months. As global equities increases its representation in our total assets under management, our total AUM will also fluctuate with any significant currency movements compared to our reporting currency, the Canadian dollar. Assuming a continued recovery from the lows in the equity markets in the early part of the first quarter, we hope to see improvements in both assets under management and management fee income for the remainder of the year.

The Company's corporate holdings of securities represent a significant amount of the total assets on our balance sheet, with a market value of approximately $540 million at June 30, 2016. BMO shares remain a significant proportion of the overall corporate securities portfolio, but a steadily declining percentage of the overall assets, as we re-allocate to other investments. As at June 30, 2016, we continue to own 4,188,720 shares with a market value of $342 million, representing approximately 63% of the total fair market value of the corporate holdings of securities. A significant proportion of equity mutual funds and other equity securities are invested in global marketable securities with US dollar exposure. Net gains will continue to be lumpy, as many of our gains or losses are triggered either by a rebalancing of our investment portfolio or due to market fluctuations which can cause large gains or losses within a number of mutual funds we have invested corporate capital into, and which are considered under IFRS to be controlled by Guardian. Net gains from investments for the quarter were $1.0 million, compared to $0.6 million in the same period in 2015.

The Company remains highly geared toward the equity markets, across its main business segments and its corporate investment portfolio. An environment which will reward greater equity risk will be positive for your Company's overall performance, as revenue sources such as commissions and management fees are aligned toward higher levels of assets under management or assets under administration.

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 the Company's operating profit. With improved operating fundamentals and strong cash flows, the Company continues to share these rewards with its shareholders. In Q2 2016, the Company paid a dividend of $2.5 million and bought back $0.6 million worth of shares. In July of this year, the Company paid to shareholders a quarterly dividend of $0.085 per share, and the Board is pleased to report that we have declared the next quarterly dividend of $0.085 per share, payable on October 18, 2016 to shareholders of record on October 10, 2016.

On behalf of the Board,	August 11, 2016
(signed) "James Anas"	(signed) "George Mavroudis"
Chairman of the Board	President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	**June 30 2016**	December 31 2015
Assets		
Current assets		
Cash	$ 26,229	$ 22,276
Interest-bearing deposits with banks	173,180	112,636
Accounts receivables and other	28,506	28,961
Receivables from clients and broker	50,127	49,125
Prepaid expenses	1,627	2,044
	279,669	215,042
Securities (note 3)		
Securities, gross	586,751	545,571
Less: amounts invested by third parties into consolidated mutual funds	(47,200)	(5,651)
	539,551	539,920
Other assets		
Deferred tax assets	1,761	1,854
Intangible assets	27,899	28,376
Equipment	4,136	4,059
Goodwill	15,014	15,014
Investment in associate	333	333
	49,143	49,636
Total assets	$ 868,363	$ 804,598
Liabilities		
Current liabilities		
Bank loans and borrowings (note 4)	$ 48,518	$ 54,755
Client deposits	173,148	112,687
Accounts payable and other	27,567	30,251
Income taxes payable	3,533	868
Payable to clients	50,127	49,125
	302,893	247,686
Other liability	651	666
Deferred tax liabilities	46,151	47,720
Total liabilities	349,695	296,072
Equity		
Shareholders' equity		
Capital stock (note 5)	20,668	20,929
Treasury stock (note 6)	(23,576)	(21,563)
Contributed surplus	13,072	12,280
Retained earnings	310,531	291,317
Accumulated other comprehensive income	193,244	201,292
	513,939	504,255
Non-controlling interests	4,729	4,271
Total equity	518,668	508,526
Total liabilities and equity	$ 868,363	$ 804,598

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended June 30	Three Months		Six Months	
($ in thousands, except per share amounts)	**2016**	2015	**2016**	2015
Net revenues				
Gross commission revenue	**$ 29,939**	$ 28,338	**$ 59,211**	$ 56,180
Commissions paid to advisors	**(20,760)**	(20,348)	**(40,846)**	(40,134)
	9,179	7,990	**18,365**	16,046
Management fee income, net (note 7)	**16,454**	16,373	**32,673**	32,852
Administrative services income	**3,365**	3,253	**7,552**	6,354
Dividend and interest income (note 8)	**5,193**	5,450	**10,671**	10,118
	34,191	33,066	**69,261**	65,370
Expenses				
Employee compensation and benefits	**14,487**	13,757	**29,394**	27,588
Amortization	**1,035**	979	**2,075**	1,927
Interest	**228**	253	**441**	477
Other expenses	**8,141**	6,687	**15,701**	13,512
	23,891	21,676	**47,611**	43,504
Operating earnings	**10,300**	11,390	**21,650**	21,866
Net gains (note 9)	**1,028**	602	**17,806**	3,789
Net earnings before income taxes	**11,328**	11,992	**39,456**	25,655
Income tax expense	**2,159**	2,206	**6,215**	4,318
Net earnings	**$ 9,169**	$ 9,786	**$ 33,241**	$ 21,337
Net earnings available to:				
Shareholders	**$ 8,887**	$ 9,604	**$ 32,705**	$ 20,914
Non-controlling interests	**282**	182	**536**	423
	$ 9,169	$ 9,786	**$ 33,241**	$ 21,337
Net earnings available to shareholders per Class A and Common share (note 10):				
Basic	**$ 0.31**	$ 0.33	**$ 1.14**	$ 0.71
Diluted	**0.30**	0.31	**1.09**	0.68

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

For the periods ended June 30	**Three Months**		**Six Months**	
($ in thousands)	**2016**	2015	**2016**	2015
Net earnings	**$ 9,169**	$ 9,786	**$ 33,241**	$ 21,337
Other comprehensive income (loss)				
Available for sale securities, net of taxes:				
Net change in fair value, net of taxes				
Net change in fair value	**13,751**	(8,302)	**17,467**	(36,519)
Income tax provision (recovery)	**1,742**	(1,175)	**1,966**	(5,044)
	12,009	(7,127)	**15,501**	(31,475)
Transfers to net earnings upon disposal, net of taxes				
Unrealized losses (gains)	**51**	(670)	**(12,751)**	(1,082)
Reversal of income taxes	**4**	10	**1,717**	27
	55	(660)	**(11,034)**	(1,055)
Net change in available for sale securities, net of taxes	**12,064**	(7,787)	**4,467**	(32,530)
Net change in foreign currency translation adjustment on foreign subsidiaries	**(2,231)**	(1,861)	**(12,515)**	8,300
Other comprehensive income (loss)	**9,833**	(9,648)	**(8,048)**	(24,230)
Comprehensive income (loss)	**$ 19,002**	$ 138	**$ 25,193**	$ (2,893)
Comprehensive income (loss) available to:				
Shareholders	**$ 18,720**	$ (44)	**$ 24,657**	$ (3,316)
Non-controlling interests	**282**	182	**536**	423
Comprehensive income (loss)	**$ 19,002**	$ 138	**$ 25,193**	$ (2,893)

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended June 30 *($ in thousands)*	Three Months 2016	 2015	Six Months 2016	 2015
Total equity, beginning of period	$ 502,103	$ 481,541	$ 508,526	$ 492,234
Shareholders' equity, beginning of period	497,656	477,901	504,255	488,835
Capital stock				
Balance, beginning of period	20,675	21,245	20,929	21,434
Acquired and cancelled (note 5c)	(7)	(85)	(261)	(274)
Capital stock, end of period	20,668	21,160	20,668	21,160
Treasury stock				
Balance, beginning of period	(23,758)	(21,613)	(21,563)	(19,890)
Acquired	--	--	(2,200)	(1,740)
Disposed of	182	16	187	33
Treasury stock, end of period	(23,576)	(21,597)	(23,576)	(21,597)
Contributed surplus				
Balance, beginning of period	12,626	11,171	12,280	10,841
Stock-based compensation expense	461	388	807	735
Redemption of equity-based entitlements	(15)	(16)	(15)	(33)
Contributed surplus, end of period	13,072	11,543	13,072	11,543
Retained earnings				
Balance, beginning of period	304,702	274,982	291,317	269,752
Net earnings available to shareholders	8,887	9,604	32,705	20,914
Dividends declared and paid	(2,498)	(2,219)	(4,736)	(4,165)
Capital stock acquired and cancelled (note 5c)	(560)	(1,997)	(8,572)	(6,131)
Acquisition of non-controlling interests (note 14)	--	--	(183)	--
Retained earnings, end of period	310,531	280,370	310,531	280,370
Accumulated comprehensive income				
Balance, beginning of period	183,411	192,116	201,292	206,698
Unrealized gains on available for sale securities, net of income taxes:				
Balance, beginning of period	162,149	172,205	169,746	196,948
Net change during period	12,064	(7,787)	4,467	(32,530)
Balance, end of period	174,213	164,418	174,213	164,418
Foreign currency translation adjustment on foreign subsidiaries:				
Balance, beginning of period	21,262	19,911	31,546	9,750
Net change during period	(2,231)	(1,861)	(12,515)	8,300
Balance, end of period	19,031	18,050	19,031	18,050
Accumulated comprehensive income, end of period	193,244	182,468	193,244	182,468
Shareholders' equity, end of period	513,939	473,944	513,939	473,944
Non-controlling interests				
Balance, beginning of period	4,447	3,640	4,271	3,399
Net earnings available to non-controlling interests	282	182	536	423
Acquisition of non-controlling interests (note 14)	--	--	(78)	--
Non-controlling interests, end of period	4,729	3,822	4,729	3,822
Total equity, end of period	$ 518,668	$ 477,766	$ 518,668	$ 477,766

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended June 30	Three Months		Six Months	
($ in thousands)	**2016**	2015	**2016**	2015
Operating activities				
Net earnings	**$ 9,169**	$ 9,786	**$ 33,241**	$ 21,337
Adjustments for:				
Income taxes paid	**(2,042)**	(2,328)	**(4,999)**	(5,871)
Income tax expense	**2,159**	2,206	**6,215**	4,318
Net gains	**(1,028)**	(636)	**(17,806)**	(3,789)
Amortization of intangible assets	**847**	803	**1,704**	1,556
Amortization of equipment	**188**	176	**371**	371
Stock-based compensation	**461**	388	**807**	735
Other non-cash expenses	**(17)**	505	**133**	661
	9,737	10,900	**19,666**	19,318
Net change in non-cash working capital items (note 12)	**3,557**	6,180	**(1,922)**	(4,042)
Net cash from operating activities	**13,294**	17,080	**17,744**	15,276
Investing activities				
Net acquisition of securities	**(10,260)**	(2,640)	**(28,590)**	(16,729)
Acquisition of intangible assets	**(1,154)**	(461)	**(1,853)**	(1,735)
Acquisition of equipment	**(333)**	(38)	**(521)**	(81)
Disposition of intangible assets	**857**	276	**1,105**	704
Business acquisitions	**--**	(3,548)	**--**	(3,548)
Net cash used in investing activities	**(10,890)**	(6,411)	**(29,859)**	(21,389)
Financing activities				
Dividends	**(2,498)**	(2,219)	**(4,736)**	(4,165)
Acquisition and cancellation of capital stock	**(567)**	(2,082)	**(8,833)**	(6,405)
Acquisition of treasury stock	**--**	--	**(2,200)**	(1,740)
Disposition of treasury stock	**182**	16	**187**	33
Net (repayments) proceeds of bank loan and bankers acceptances	**(10,921)**	4,951	**(6,480)**	12,702
Net subscriptions from third party investors in consolidated mutual funds	**16,571**	--	**38,915**	--
Acquisition of non-controlling interests	**--**	--	**(261)**	--
Net cash from financing activities	**2,767**	666	**16,592**	425
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	**15**	80	**(767)**	1,379
Net change in net cash	**5,186**	11,415	**3,710**	(4,309)
Net cash, beginning of period	**19,198**	12,044	**20,674**	27,768
Net cash, end of period	**$ 24,384**	$ 23,459	**$ 24,384**	$ 23,459
Net cash represented by:				
Cash			**$ 26,229**	$ 23,459
Net bank indebtedness			**(1,845)**	--
			$ 24,384	$ 23,459

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. REPORTING ENTITY

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

2. ACCOUNTING POLICIES

(a) Basis of Preparation

These unaudited consolidated interim financial statements include the accounts of Guardian and its subsidiaries (together, the "Company") and 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, 2015. 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 consolidated interim financial statements. These consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015, which are included in the Company's 2015 annual report.

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

Certain reclassifications have been made to the 2015 comparative financial information in order to conform to the current period's presentation.

These consolidated interim financial statements were authorized for issuance by the Board of Directors of Guardian on August 11, 2016.

(b) Future Changes in Accounting Policies

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

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

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

3. SECURITIES

(a) Classification of securities

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

As at	June 30 2016	December 31 2015
Available for sale securities:		
Short-term securities (i)	**$ 2,061**	$ 2,058
Bonds	**1,125**	1,102
Fixed income mutual funds	**8,464**	8,139
Equity mutual funds	**45,879**	47,949
Bank of Montreal common shares (ii)	**342,554**	353,790
Other equity securities	**21,566**	20,949
Real estate fund (iii)	**15,120**	22,284
	436,769	456,271
Held for trading securities, net (iv):		
Equity securities	**149,983**	89,300
Less: investments by third parties in consolidated mutual funds	**(47,200)**	(5,651)
	102,782	83,649
	$ 539,551	$ 539,920

(i) Short-term securities shown above include investments in non-controlled mutual funds that primarily invest in short-term securities, as well as directly held short-term securities.

(ii) During the first quarter, the Company sold 342 of its Bank of Montreal common shares. The gain on this sale is disclosed in note 9.

(iii) During the current quarter, to accommodate an existing investor wishing to increase its investment, the Company sold a portion of its investment in the real estate fund to that investor for total proceeds of $6,914, but maintained its original commitment to invest a total of $25,000 in the fund. As a result, the Company's univested commitment increased to $10,371 at the end of the current quarter. Subsequent to quarter-end, the Company increased its investment in the fund by $4,438 and made a commitment to invest an additional $10,000 in the fund.

(iv) Held for trading securities, net consist of securities held by consolidated mutual funds which meet the criteria for this classification, less amounts invested by third parties in those consolidated mutual funds. Changes in the fair value of these securities are included in net gains.

(b) Fair value hierarchy

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

As at	June 30 2016	December 31 2015
Level 1	$ 458,429	$ 449,953
Level 2	68,152	77,049
Level 3	12,970	12,918
	$ 539,551	$ 539,920

During 2016 and 2015, there have been no transfers of securities between Levels.

(c) Changes in Level 3 securities

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

For the periods ended June 30	Three Months 2016	Three Months 2015	Six Months 2016	Six Months 2015
Level 3 securities, beginning of period	$ 12,615	$ 7,244	$ 12,918	$ 5,973
Increase (decrease) in fair value, recognized in Other Comprehensive Income	355	158	52	1,429
Level 3 securities, end of period	$ 12,970	$ 7,402	$ 12,970	$ 7,402

4. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at	June 30 2016	December 31 2015
Net bank indebtedness	$ 1,845	$ 1,602
Bankers' acceptances payable	46,600	53,100
Bank loan	73	53
	$ 48,518	$ 54,755

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	2016			2015		
	Shares		Amount	Shares		Amount
Class A shares						
Outstanding, beginning of period	26,847	$	19,707	27,118	$	20,090
Acquired and cancelled	--		--	(113)		(85)
Converted from common	143		35	--		--
Outstanding, end of period	26,990		19,742	27,005		20,005
Common shares						
Outstanding, beginning of period	4,009		968	4,777		1,155
Acquired and cancelled	(27)		(7)	--		--
Converted to class A	(143)		(35)	--		--
Outstanding, end of period	3,839		926	4,777		1,155
Total outstanding, end of period	30,829	$	20,668	31,782	$	21,160

For the six months ended June 30	2016			2015		
	Shares		Amount	Shares		Amount
Class A shares						
Outstanding, beginning of period	26,979	$	19,878	27,368	$	20,279
Acquired and cancelled	(282)		(208)	(363)		(274)
Converted from common	293		72	--		--
Outstanding, end of period	26,990		19,742	27,005		20,005
Common shares						
Outstanding, beginning of period	4,349		1,051	4,777		1,155
Acquired and cancelled	(217)		(53)	--		--
Converted to class A	(293)		(72)	--		--
Outstanding, end of period	3,839		926	4,777		1,155
Total outstanding, end of period	30,829	$	20,668	31,782	$	21,160

(c) Issuer bid

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

For the periods ended June 30		Three Months				Six Months		
		2016		2015		2016		2015
Shares purchased and cancelled:								
Class A		--		113		282		363
Common		27		--		217		--
Consideration paid	$	567	$	2,082	$	8,833	$	6,405
Average issue price, charged to share capital		(7)		(85)		(261)		(274)
Excess consideration charged to retained earnings	$	560	$	1,997	$	8,572	$	6,131

Under the current NCIB, the Company may purchase up to 217 common shares and 2,015 class A shares during the period from November 20, 2015 to November 19, 2016. To date, the Company has purchased and cancelled 217 common shares and 303 class A shares under this NCIB.

(d) Dividends

The dividends the Company declared and paid on the common and Class A shares outstanding are as follows:

For the periods ended June 30		Three Months				Six Months		
		2016		2015		2016		2015
Dividends declared and paid, per share	$	0.085	$	0.075	$	0.160	$	0.140

The Company has also declared dividends of $0.085 and $0.085 per share payable on July 18, 2016 and October 18, 2016, respectively, on the common and class A shares outstanding. These dividends, which will be recognized on the record dates, have 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) Changes in treasury stock

For the three months ended June 30	2016		2015	
	Shares	**Amount**	Shares	Amount
Balance, beginning of period	**2,428**	**$ 23,758**	2,303	$ 21,613
Disposed of	**(32)**	**(182)**	(1)	(16)
Balance, end of period	**2,396**	**$ 23,576**	2,302	$ 21,597

For the six months ended June 30	2016		2015	
	Shares	**Amount**	Shares	Amount
Balance, beginning of period	**2,299**	**$ 21,563**	2,204	$ 19,890
Acquired	**130**	**2,200**	101	1,740
Disposed of	**(33)**	**(187)**	(3)	(33)
Balance, end of period	**2,396**	**$ 23,576**	2,302	$ 21,597

(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 equity-based entitlement or an option-like entitlement, as described below.

i) 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**	
	2016	2015	**2016**	2015
Equity based entitlements, beginning of period	**933**	807	**803**	708
Provided	**--**	--	**130**	101
Exercised	**(2)**	(1)	**(2)**	(3)
Equity based entitlements, end of period	**931**	806	**931**	806

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 had a fair value of $ nil and $2,200, respectively (2015 - $ nil and $1,740).

ii) 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	2016		2015	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,495**	**$ 8.95**	1,496	$ 8.95
Exercised	**(30)**	**5.52**	--	--
Option-like entitlements, end of period	**1,465**	**$ 9.02**	1,496	$ 8.95

For the six months ended June 30	2016		2015	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,496**	**$ 8.95**	1,496	$ 8.95
Exercised	**(31)**	**5.59**	--	--
Option-like entitlements, end of period	**1,465**	**$ 9.02**	1,496	$ 8.95

These entitlements 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.

7. MANAGEMENT FEE INCOME, NET

Management fee income, net is composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2016	2015	**2016**	2015
Management fee income, gross	**$ 17,452**	$ 17,177	**$ 34,529**	$ 34,380
Less: fees paid to referring agents	**(998)**	(804)	**(1,856)**	(1,528)
	$ 16,454	$ 16,373	**$ 32,673**	$ 32,852

8. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2016	2015	**2016**	2015
Dividends on Bank of Montreal shares	**$ 3,519**	$ 3,788	**$ 7,325**	$ 7,576
Other dividends	**1,285**	1,356	**2,539**	1,914
Dividend income	**4,804**	5,144	**9,864**	9,490
Interest income	**389**	306	**807**	628
	$ 5,193	$ 5,450	**$ 10,671**	$ 10,118

9. NET GAINS

Net gains are composed of the following:

For the periods ended June 30	Three Months		Six Months	
	2016	2015	**2016**	2015
Held for trading securities, net	**$ 554**	$ (295)	**$ 3,934**	$ 3,108
Available for sale securities (i)	**(237)**	670	**13,087**	1,084
Net gains on securities	**317**	375	**17,021**	4,192
Gains on disposal of intangible assets	**425**	103	**532**	282
Foreign exchange gains (losses) (ii)	**286**	124	**253**	(685)
	$ 1,028	$ 602	**$ 17,806**	$ 3,789

(i) During the first quarter of 2016, the Company sold 342 shares of the Bank of Montreal (2015 – nil) resulting in gains of $13,636 (2015 - $ nil) and income tax expense of $1,807 (2015 - $ nil).

(ii) Foreign exchange gains (losses) arise from monetary assets and liabilities denominated in foreign currencies which are different from the functional currency of the Company or its individual subsidiaries. The Company's foreign exchange gains (losses) mainly relate to the holdings of Canadian dollars by the international banking subsidiary, which uses the US dollar as its functional currency. On translation of this subsidiary's results to Canadian dollars, for the purpose of consolidating it into the Company's results, an equal and offsetting amount is recorded in other comprehensive income.

10. 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 2016	Three Months 2015	Six Months 2016	Six Months 2015
Weighted average number of Class A and common shares outstanding:				
Basic	28,453	29,541	28,593	29,607
Effects of outstanding entitlements from stock-based compensation plans	1,530	1,445	1,504	1,402
Diluted	29,983	30,986	30,097	31,009
Net earnings available to shareholders:				
Basic	$ 8,887	$ 9,604	$ 32,705	$ 20,914
Effects of outstanding entitlements from stock-based compensation plans	56	118	116	223
	$ 8,943	$ 9,722	$ 32,821	$ 21,137

11. BUSINESS SEGMENTS

The Company operates in the following three main business segments: Investment Management, which primarily involves earning management fees relating to investment management services provided to clients; Financial Advisory, which relates to the earning of commissions and administrative services revenue from assets under administration and the sale of life insurance policies; and Corporate Activities and Investments, 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 also operates in various geographic regions.

(a) Business segments

The following tables disclose certain information about the Company's operations by business segment:

For the three months ended June 30	Investment Management 2016	Investment Management 2015	Financial Advisory 2016	Financial Advisory 2015	Corporate Activities and Investments 2016	Corporate Activities and Investments 2015	Inter-Segment Transactions 2016	Inter-Segment Transactions 2015	Consolidated 2016	Consolidated 2015
Net revenues										
Gross commission revenue	$ --	$ --	$ 30,081	$ 28,513	$ --	$ --	$ (142)	$ (175)	$ 29,939	$ 28,338
Commissions paid to advisors	--	--	(20,760)	(20,348)	--	--	--	--	(20,760)	(20,348)
	--	--	9,321	8,165	--	--	(142)	(175)	9,179	7,990
Management fee income, net	16,387	16,179	--	--	--	--	67	194	16,454	16,373
Administrative services income	1,457	1,309	1,908	1,920	--	24	--	--	3,365	3,253
Dividend and interest income	100	21	174	183	4,881	5,280	38	(34)	5,193	5,450
	17,944	17,509	11,403	10,268	4,881	5,304	(37)	(15)	34,191	33,066
Expenses										
Employee compensation and benefits	8,430	7,891	4,235	3,645	1,822	2,221	--	--	14,487	13,757
Amortization	80	105	828	765	127	109	--	--	1,035	979
Interest	55	53	53	41	157	196	(37)	(37)	228	253
Other expenses	4,813	4,454	4,080	3,260	(752)	(1,015)	--	(12)	8,141	6,687
	13,378	12,503	9,196	7,711	1,354	1,511	(37)	(49)	23,891	21,676
Operating earnings	4,566	5,006	2,207	2,557	3,527	3,793	--	34	10,300	11,390
Net gains	(8)	103	424	101	612	432	--	(34)	1,028	602
Net earnings before income taxes	4,558	5,109	2,631	2,658	4,139	4,225	--	--	11,328	11,992
Income tax expense	1,390	1,672	747	769	22	(235)	--	--	2,159	2,206
Net earnings	$ 3,168	$ 3,437	$ 1,884	$ 1,889	$ 4,117	$ 4,460	$ --	$ --	$ 9,169	$ 9,786
Net earnings available to:										
Shareholders	$ 3,168	$ 3,437	$ 1,602	$ 1,707	$ 4,117	$ 4,460	$ --	$ --	$ 8,887	$ 9,604
Non-controlling interests	--	--	282	182	--	--	--	--	282	182
	$ 3,168	$ 3,437	$ 1,884	$ 1,889	$ 4,117	$ 4,460	$ --	$ --	$ 9,169	$ 9,786
Capital expenditures on:										
Intangible assets	$ --	$ 15	$ 1,110	$ 6,559	$ 44	$ --	$ --	$ --	$ 1,154	$ 6,574
Equipment	277	5	--	17	56	16	--	--	333	38

For the six months ended June 30	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net revenues										
Gross commission revenue	**$ --**	$ --	**$ 59,555**	$ 56,528	**$ --**	$ --	**$ (344)**	$ (348)	**$ 59,211**	$ 56,180
Commissions paid to advisors	**--**	--	**(40,846)**	(40,134)	**--**	--	**--**	--	**(40,846)**	(40,134)
	--	--	**18,709**	16,394	**--**	--	**(344)**	(348)	**18,365**	16,046
Management fee income, net	**32,404**	32,519	**--**	--	**--**	--	**269**	333	**32,673**	32,852
Administrative services income	**3,702**	2,666	**3,850**	3,664	**--**	24	**--**	--	**7,552**	6,354
Dividend and interest income	**142**	59	**335**	370	**10,203**	9,754	**(9)**	(65)	**10,671**	10,118
	36,248	35,244	**22,894**	20,428	**10,203**	9,778	**(84)**	(80)	**69,261**	65,370
Expenses										
Employee compensation and benefits	**16,799**	16,095	**8,586**	7,311	**4,009**	4,182	**--**	--	**29,394**	27,588
Amortization	**155**	167	**1,671**	1,480	**249**	280	**--**	--	**2,075**	1,927
Interest	**108**	106	**104**	77	**313**	362	**(84)**	(68)	**441**	477
Other expenses	**9,519**	9,109	**7,715**	6,315	**(1,533)**	(1,900)	**--**	(12)	**15,701**	13,512
	26,581	25,477	**18,076**	15,183	**3,038**	2,924	**(84)**	(80)	**47,611**	43,504
Operating earnings	**9,667**	9,767	**4,818**	5,245	**7,165**	6,854	**--**	--	**21,650**	21,866
Net gains	**450**	(511)	**526**	287	**16,830**	4,013	**--**	--	**17,806**	3,789
Net earnings before income taxes	**10,117**	9,256	**5,344**	5,532	**23,995**	10,867	**--**	--	**39,456**	25,655
Income tax expense	**2,798**	2,847	**1,537**	1,569	**1,880**	(98)	**--**	--	**6,215**	4,318
Net earnings	**$ 7,319**	$ 6,409	**$ 3,807**	$ 3,963	**$ 22,115**	$ 10,965	**$ --**	$ --	**$ 33,241**	$ 21,337
Net earnings available to:										
Shareholders	**$ 7,319**	$ 6,409	**$ 3,271**	$ 3,540	**$ 22,115**	$ 10,965	**$ --**	$ --	**$ 32,705**	$ 20,914
Non-controlling interests	**--**	--	**536**	423	**--**	--	**--**	--	**536**	423
	$ 7,319	$ 6,409	**$ 3,807**	$ 3,963	**$ 22,115**	$ 10,965	**$ --**	$ --	**$ 33,241**	$ 21,337
Capital expenditures on:										
Intangible assets	**$ 25**	$ 15	**$ 1,760**	$ 7,833	**$ 68**	$ --	**$ --**	$ --	**$ 1,853**	$ 7,848
Equipment	**310**	8	**6**	35	**205**	38	**--**	--	**521**	81

As at June 30, 2016 and December 31, 2015	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Assets and liabilities:										
Assets	**$ 235,790**	$ 167,614	**$ 119,629**	$ 115,906	**$ 616,313**	$ 614,184	**$ (103,369)**	$ (93,106)	**$ 868,363**	$ 804,598
Liabilities	**188,699**	127,609	**120,112**	119,935	**144,253**	141,634	**(103,369)**	(93,106)	**349,695**	296,072

(b) Geographic segments

The following tables disclose certain information about the Company's operations by geography:

	Canada		Rest of the World		Inter-Segment Transactions		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
For the three months ended June 30								
Net revenues	**$ 32,554**	$ 31,300	**$ 1,823**	$ 1,971	**$ (186)**	$ (205)	**$ 34,191**	$ 33,066
For the six months ended June 30								
Net revenues	**$ 65,001**	$ 61,823	**$ 4,643**	$ 3,848	**$ (383)**	$ (301)	**$ 69,261**	$ 65,370
As at June 30, 2016 and December 31, 2015								
Non-current assets:								
Intangible assets	**$ 26,826**	$ 27,186	**$ 1,073**	$ 1,190	**$ --**	$ --	**$ 27,899**	$ 28,376
Equipment	**3,358**	3,174	**778**	885	**--**	--	**4,136**	4,059
Goodwill	**13,826**	13,826	**1,188**	1,188	**--**	--	**15,014**	15,014

12. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

For the periods ended June 30	Three Months		Six Months	
	2016	2015	**2016**	2015
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	**$ (28,444)**	$ (11,189)	**$ (69,135)**	$ (1,412)
Accounts receivable and other	**(601)**	(274)	**393**	388
Receivables from clients and broker	**10,695**	(2,794)	**(1,002)**	1,146
Prepaid expenses	**569**	83	**336**	177
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	**28,400**	11,187	**69,028**	1,390
Accounts payable and other	**3,633**	6,373	**(2,544)**	(4,585)
Payable to clients	**(10,695)**	2,794	**1,002**	(1,146)
	$ 3,557	$ 6,180	**$ (1,922)**	$ (4,042)

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. 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 as 63% or $342,554 (December 31, 2015 – 66% or $353,790) of the Company's securities holdings are invested in a single security, the Bank of Montreal shares. 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 $34,255 (December 31, 2015 - $35,379) being recorded in other comprehensive income.

(b) Market risk

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

i) Price risk

The Company is exposed to price risk with its equity securities. Unrealized changes in the values of its securities are recognized in net earnings for held for trading securities and in other comprehensive income for available for sale securities. The securities holdings, excluding the Bank of Montreal shares, are diversified by asset class and by geographical region, as shown in the chart below. The chart also indicates the gain or loss which would be recognized in net earnings and other comprehensive income as a result of a 10% change in the market prices:

	Fair value of held for trading securities	Unrealized gain or loss recognized in net earnings from a 10% change in market value	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 a 10% change in market value
As at June 30, 2016				
Canada	**$ 2,462**	**±$ 246**	**$ 29,081**	**±$ 2,908**
United States	**--**	**--**	**18,714**	**1,871**
Rest of World	**100,320**	**10,032**	**34,770**	**3,477**
	$ 102,782	**±$ 10,278**	**$ 82,565**	**±$ 8,256**
As at December 31, 2015				
Canada	$ 2,263	±$ 226	$ 35,074	±$ 3,507
United States	--	--	19,057	1,906
Rest of World	81,386	8,139	37,051	3,705
	$ 83,649	±$ 8,365	$ 91,182	±$ 9,118

ii) Currency risk

The Company's main exposure to currency risk is on its investments in its foreign subsidiaries, amounting to $145,151 (December 31, 2015 - $109,915). Changes in the value of these investments caused by changes in the US dollar and UK pound exchange rates are reflected in other comprehensive income in the period in which the change occurs. These foreign currency exposures are monitored by management but not actively managed, due to the long-term nature of these investments. From time to time, certain foreign subsidiaries, whose functional currencies are not the Canadian dollar, may 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, 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.

ii) Interest rate risk

The Company is exposed to interest rate risk through its bank loans and borrowings of $48,518 (December 31, 2015 - $54,755) and its investments in fixed income mutual funds and bonds of $9,589 (December 31, 2015 - $9,241). The interest rates on the borrowings are short-term and, if short-term rates increase, the Company's interest expense will increase and net earnings will decrease. The interest rate risk associated with the Company's investments in fixed-income mutual funds and bonds are managed by monitoring the activities of the portfolio managers who manage this risk by positioning the investments for various interest rate environments. The Company is also exposed to interest rate risk in its international banking operation, through the asset interest-bearing deposits with banks of $173,180 (December 31, 2015 - $112,636), and the client deposits liability of $173,148 (December 31, 2015 - $112,687). This risk is considered to be 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 2016	December 31 2015
Cash	$ 26,229	$ 22,276
Interest-bearing deposits with banks	173,180	112,636
Accounts receivable and other	28,506	28,961
Receivables from clients and broker	50,127	49,125
Short-term securities	2,061	2,058
Bonds	1,125	1,102
Fixed income mutual funds	8,464	8,139
	$ 289,692	$ 224,297

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 and there are controls on the amounts that these clients may borrow, depending upon the securities that are pledged as collateral. The credit risk associated with the Company's investments in fixed income mutual funds and bonds is managed by monitoring the activities of the portfolio managers who, through diversification and credit quality reviews of the investments, manage the credit risk. The short-term securities are investment-quality securities. From time to time, advisors in the financial advisory segment may owe to the Dealers or the MGA, advances received or amounts resulting from reversal of commissions. The credit risks associated with these amounts are mitigated by management's review of the ability of the advisors to repay the advances or the potential commission reversals, before amounts are paid to the advisors.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities, which are substantially all due within one year. The Company manages this financial risk by monitoring and managing cash flows from various segments of the business, maintaining liquid securities within the securities holdings, and by arranging for sufficient borrowing facilities with major Canadian banks, which currently total $103,000.

14. ACQUISITION OF NON-CONTROLLING INTERESTS

During the first quarter of 2016, the Company purchased, for cash consideration of $261, a portion of the non-controlling interest in its insurance managing general agency, thereby increasing the Company's interest from 79.3% to 79.7%. This transaction was recorded in the equity accounts as follows:

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

15. 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 for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the periods ended June 30, 2016 and the comparative period in the year 2015, as well as to certain other prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2015 Annual Report. This discussion and analysis has been prepared as of August 11, 2016.

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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

By their nature, forward-looking statements involve risks and uncertainties. There is a risk that 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 wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered and operates in Canada and also operates through its subsidiaries in the UK ("GuardCap") and the Caribbean ("Alexandria"). During the second quarter of 2016, Guardian formed a subsidiary, Guardian Capital LLC ("Guardian LLC"), in the United States to operate as a marketing agent for the investment management business. As at June 30, 2016, Guardian had $25.7 billion in assets under management ("AUM") and $15.4 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 $540 million at the end of the quarter.

HIGHLIGHTS FOR THE QUARTER ENDED JUNE 30, 2016

The operating earnings for the quarter ended June 30, 2016 were $10.3 million, compared to $11.4 million in 2015. Net earnings available to shareholders were $8.9 million, or $0.30 per share, diluted compared to $9.6 million or $0.31 per share, diluted a year ago.

During the quarter, to accommodate an existing investor wishing to increase its investment, Guardian sold a portion of its investment in the real estate fund managed by its subsidiary to that investor, for total proceeds of $6.9 million.

Also during the quarter, consistent with its strategic plan, Guardian added key resources in various parts of its business, including hiring a team in the US to strengthen its marketing and distribution capabilities, investment professionals in the UK to further strengthen its investment management capabilities and appointing a new Managing Director of its Private Wealth investment management business.

USE OF NON-IFRS MEASURES

Guardian uses certain measures to evaluate and assess the performance of its business. Two of the measures that Guardian uses, EBITDA and adjusted cash flow from operations, are not defined within International Financial Reporting Standards ("IFRS"). Non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. However, Guardian believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these measures in analyzing Guardian's results.

EBITDA

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and net gains or losses, less amounts attributable to non-controlling interests. Guardian believe this is an important measure, as it allows management to assess the operating profitability of our business and to compare it with other investment management companies, without the distortion caused by the impact of non-core business items, different financing methods, levels of income taxes, the amounts of net earnings available to non-controlling interests and the level of capital expenditures. The most comparable IFRS measure is "Net earnings", which is disclosed in Guardian's Consolidated Statements of Operations.

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

For the periods ended June 30	Three Months		Six Months	
($ in thousands)	**2016**	2015	**2016**	2015
Net earnings, as reported	**$ 9,169**	$ 9,786	**$ 33,241**	$ 21,337
Add (deduct):				
Income tax expense	**2,159**	2,206	**6,215**	4,318
Net gains	**(1,028)**	(602)	**(17,806)**	(3,789)
Stock-based compensation	**461**	388	**807**	735
Interest expense	**228**	253	**441**	477
Amortization	**1,035**	979	**2,075**	1,927
Non-controlling interests	**(417)**	(356)	**(888)**	(791)
EBITDA	**$ 11,607**	$ 12,654	**$ 24,085**	$ 24,214

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 available to shareholders, without the distortions caused by fluctuations in its working capital. Many companies similar to Guardian use a similar measure in this 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 IFRS measure to this non-IFRS measure:

For the periods ended June 30	Three Months		Six Months	
($ in thousands)	**2016**	2015	**2016**	2015
Net cash from operating activities, as reported	**$ 13,294**	$ 17,080	**$ 17,744**	$ 15,276
Add (deduct):				
Net change in non-cash working capital items	**(3,557)**	(6,180)	**1,922**	4,042
Non-controlling interests	**(302)**	(356)	**(648)**	(633)
Adjusted cash flown from operations	**$ 9,435**	$ 10,544	**$ 19,018**	$ 18,685

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)	**2016**	2015	**2016**	2015
Net revenues	**$ 34,191**	$ 33,066	**$ 69,261**	$ 65,370
Expenses	**23,891**	21,676	**47,611**	43,504
Operating earnings	**10,300**	11,390	**21,650**	21,866
Net gains	**1,028**	602	**17,806**	3,789
Net earnings before income taxes	**11,328**	11,992	**39,456**	25,655
Income tax expense	**2,159**	2,206	**6,215**	4,318
Net earnings	**$ 9,169**	$ 9,786	**$ 33,241**	$ 21,337
Net earnings available to shareholders	**$ 8,887**	$ 9,604	**$ 32,705**	$ 20,914
EBITDA	**11,607**	12,654	**24,085**	24,214
Adjusted cash flow from operations	**9,435**	10,544	**19,018**	18,685
Diluted per share amounts				
Net earnings available to shareholders	**$ 0.30**	$ 0.31	**$ 1.09**	$ 0.68
EBITDA	**0.39**	0.41	**0.80**	0.79
Adjusted cash flow from operations	**0.32**	0.34	**0.64**	0.61

As at	**2016**	2015	
($ in millions, except per share amounts)	**June 30**	December 31	June 30
Assets under management	**$ 25,654**	$ 24,278	$ 25,007
Assets under administration	**15,425**	14,943	14,821
Shareholders' equity	**514**	504	474
Corporate holding of securities	**540**	540	515
Diluted per share			
Shareholders' equity	**$ 17.10**	$ 16.55	$ 15.32
Corporate holding of securities	**17.96**	17.72	16.64

RESULTS OF OPERATIONS

The AUM at Guardian as at June 30, 2016 was $25.7 billion, up 6% from $24.3 billion at December 31, 2015, and up 3% from $25.0 billion at June 30, 2015. The increases in AUM compared to the end of 2015 and the second quarter of 2015 were largely due to the market improvements during those periods. The AUA at June 30, 2016 was $15.4 billion, a 3% increase from $14.9 billion at December 31, 2015 and a 4% increase from $14.8 billion at June 30, 2015. The main contributor to the increases in AUA compared to the end of 2015 and the second quarter of 2015 was due largely to the market improvements during those periods.

For the quarter ended June 30, 2016, Guardian's operating earnings were $10.3 million, compared to $11.4 million reported for the same quarter in 2015. The decrease in operating earnings this quarter reflects the Company's strategic decision to reinvest in the business in the form of key hires and other expenditures and the redeployment of capital into key parts of the business. These investments are expected to continue to have a dampening effect on earnings in the short-term, but lead to improved operating earnings in the future.

The investment management segment's current quarter operating earnings decreased by $0.4 million compared to the prior year, due to the continued investment in the UK and the real estate investment management businesses and the hiring of key resources in other parts of the segment. Included in this segment's operating earnings this quarter are $0.9 million in operating losses related to the UK subsidiary and the real estate investment management subsidiary, compared with $0.7 million in 2015. The UK subsidiary continued to win new clients during the quarter, as the marketing efforts and the additional investment into the UCITS, to give it greater scale, have resulted in additional third party investments in the fund. At the end of the second quarter, the third party investments in the UCITS funds totaled $45 million. The financial advisory segment's operating earnings decreased by $0.4 million, due to increased expenses resulting from additional hires and other expenditures in marketing, technology and other operational costs outpacing the revenue growth. The operating earnings in the corporate activities and investments segment decreased by $0.3 million compared to the prior year, due largely to Guardian's strategic decision to reallocate a portion of its investment in the Bank of Montreal shares into the UCITS, in the preceding quarter, and the partial disposition of the investment in the real estate fund, resulted in lower dividend income being earned compared with the prior year.

Total net revenue for the current quarter was $34.2 million, a 3% increase from $33.1 million during the same quarter in 2015. The growth in net revenue was driven largely by the growth in insurance commission revenue in the financial advisory segment, including the effects of the First Prairie Financial ("First Prairie") acquisition completed on June 1, 2015, offset by the reduction in dividend and interest income earned on the securities portfolio. The total expenses for the quarter were $23.9 million, an 11% increase from $21.7 million in 2015. The increase in expenses was mainly related to the reinvestment into the businesses for future growth, as discussed above, and the effects of the First Prairie acquisition.

Net gains for the current quarter were $1.0 million, compared to $0.6 million in 2015.

Net earnings available to shareholders were $8.9 million in the current quarter, compared to $9.6 million in the same quarter in the prior year. The decrease was due largely to the decrease in operating earnings described above.

EBITDA for the quarter was $11.6 million, compared to $12.7 million in 2015. The adjusted cash flow from operations for the quarter was $9.4 million, compared to $10.5 million in 2015. The decrease in EBITDA and adjusted cash flow from operations are due largely to the decrease in operating earnings.

ASSETS UNDER MANAGEMENT

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

As at	2016	2015	
($ in millions)	**June 30**	December 31	June 30
Institutional	**$ 23,247**	$ 21,994	$ 22,820
Private client	**2,407**	2,284	2,187
Total AUM	**$ 25,654**	$ 24,278	$ 25,007
Institutional AUM is composed of:			
Canadian equities	**$ 12,561**	$ 11,715	$ 13,164
Global equities	**3,317**	3,389	3,037
Fixed income	**7,369**	6,890	6,619
Total Institutional AUM	**$ 23,247**	$ 21,994	$ 22,820

REVENUES AND EXPENSES

Management Fee Income, Net

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.

Management fee income, net of referral fees paid, for the second quarter of 2016 were $16.5 million, a slight increase from $16.4 million in the same quarter in the prior year, as a result of an increase in the average fee rate earned, offset by lower average AUM in the current quarter. Institutional management fees earned in the quarter were $12.8 million, compared to $12.9 million a year earlier. The systematic global equity strategies management fees increased by $0.2 million, offset by a decrease in the domestic strategies of $0.3 million, compared to 2015. Private client and international client management fees, net of referral fees paid, earned in the quarter amounted to $3.7 million, compared to $3.5 million a year earlier.

Financial Advisory Commission Revenue

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

Net commission revenue for the quarter was $9.2 million, an increase of 15% compared to $8.0 million a year earlier, led mainly by the growth in the MGA business. During the current quarter, the MGA increased its premiums on life insurance policies sold by 22% to $17.3 million, compared to $14.2 million in the prior year. Its commission revenue for the quarter was $5.9 million, a 20% increase compared to $4.9 million a year earlier, as a result of the increased sales of life insurance policies, the additional continuing service fee revenue from the prior year sales and $0.4 million in commission revenue associated with the First Prairie acquisition. The Dealers' net commission revenue for the quarter increased 7%, compared to the prior year, due largely to the increase in AUA.

Administrative Services Income

Administrative services income is comprised of registered plan and other fees earned in the financial advisory business, administration fees earned from managed investment funds in the investment management business, and trust, corporate administration and other related fees earned in the international private banking business. This income amounted to $3.4 million for the current quarter, compared to $3.3 million a year earlier.

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)	**2016**	2015	**2016**	2015
Dividends on Bank of Montreal shares	**$ 3,519**	$ 3,788	**$ 7,325**	$ 7,576
Other dividends	**1,285**	1,356	**2,539**	1,914
Dividend income	**4,804**	5,144	**9,864**	9,490
Interest income	**389**	306	**807**	628
	$ 5,193	$ 5,450	**$ 10,671**	$ 10,118

The decrease in dividends in the current quarter compared to the same quarter in the prior year is due to the lower number of Bank of Montreal shares and units of the real estate fund held during the current quarter, offset partially by the increased dividends earned by the consolidated UCITS fund.

Expenses

Guardian's expenses, excluding amortization and interest, were $22.6 million in the current quarter, compared with $20.4 million in the same quarter of 2015. The increase in expenses is due largely to the reinvestment in the businesses to support their future growth. The increase in the financial advisory segment was $1.4 million, as a result of the full quarter's expenses relating to the First Prairie acquisition being included in the current quarter, compared to only one month in the prior year, and increases in staffing, technology, marketing and other operational expenses and charges. The increase in the investment management segment was $0.9 million, including the effects of new resources being added to the UK subsidiary, the Private Wealth subsidiary and the expansion into the US.

The higher amortization expense in the quarter was mainly due to increased amortization of advisor recruitment costs in the financial advisory segment, including the amortization of intangibles arising from the First Prairie acquisition.

NET GAINS

For the periods ended June 30	Three Months		Six Months	
($ in thousands)	**2016**	2015	**2016**	2015
Held for trading securities, net	**$ 554**	$ (295)	**$ 3,934**	$ 3,108
Available for sale securities	**(237)**	670	**13,087**	1,084
Net gains on securities	**317**	375	**17,021**	4,192
Gains on disposal of intangible assets	**425**	103	**532**	282
Foreign exchange losses	**286**	124	**253**	(685)
Net gains	**$ 1,028**	$ 602	**$ 17,806**	$ 3,789

LIQUIDITY AND CAPITAL RESOURCES

The strength of Guardian's balance sheet has enabled Guardian to attract Associates; provide clients with a high comfort level; maintain appropriate levels of working capital in each of its areas of operation; make the necessary capital expenditures to develop its businesses; and make appropriate use of borrowings, including financing the expansion of its businesses. We are confident that the strength of Guardian's balance sheet will continue to provide benefits in the future.

Guardian's shareholders' equity as at June 30, 2016 amounted to $514 million, or $17.10 per share, diluted, compared to $504 million, or $16.55 per share, diluted, at the end of 2015. Guardian's corporate holdings of securities as at June 30, 2016 had a fair value of $540 million, or $17.96 per share, diluted, compared with $540 million, or $17.72 per share, diluted, at the end of 2015. The increase in per share amounts at the end of the current quarter includes the positive effects of the share buybacks completed since the end of 2015. As at June 30, 2016, the securities holdings consisted of 63% Bank of Montreal shares and 37% in largely proprietary investment funds and strategies, compared with 66% and 34%, respectively, at the end of 2015. At the end of the current quarter, the non-Canadian equity exposure in the securities holdings increased to 29%, compared to 26% at the end of 2015.

Guardian's total bank borrowings at June 30, 2016 amounted to $48.5 million, compared with $54.8 million at the end of 2015. The total credit available, under various borrowing arrangements, amounts to $103 million.

During the current quarter, Guardian reduced its debt outstanding by $16.7 million, paid dividends of $2.5 million and completed $0.6 million in share buy-backs using the cash flow from operations and proceeds from the sale of the units in the real estate fund.

The following is a summary of Guardian's corporate holdings of securities:

As at *($ in thousands, except per share amounts)*	**2016** **June 30**	2015 December 31	 June 30
Securities:			
Short-term securities	**$ 2,061**	$ 2,058	$ 5,383
Bonds	**1,125**	1,102	1,104
Fixed income mutual funds	**8,464**	8,139	8,236
Equity mutual funds	**45,879**	47,949	44,612
Bank of Montreal common shares	**342,554**	353,790	350,400
Other equity securities	**171,549**	110,249	84,303
Real estate fund	**15,120**	22,284	22,160
Securities, gross	**586,752**	545,571	516,198
Less: Amounts invested by third parties into consolidated mutual funds	**(47,200)**	(5,651)	(1,354)
Securities, net	**$ 539,551**	$ 539,920	$ 514,844
Total securities per share, diluted	**$ 17.96**	$ 17.72	$ 16.64

During the current quarter, Guardian sold a portion of its investment in the real estate fund managed by its subsidiary to an existing institutional investor in the fund, for total proceeds of $6.9 million. Subsequent to the quarter-end, Guardian increased its investment in the fund by $4.4 million and, as a result, increased total investment in the real estate fund to $19.6 million.

During the first quarter of 2016, Guardian sold 342,400 of the Bank of Montreal shares for total proceeds of $26.1 million, which were largely invested into the UCITS fund managed by GuardCap.

CONTRACTUAL OBLIGATIONS

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

As at June 30, 2016 *($ in thousands)*	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	$ 48,518	$ 48,518	$ --	$ --	$ --
Client deposits	173,148	173,148	--	--	--
Accounts payable and other	31,751	31,100	651	--	--
Payable to clients	50,127	50,127	--	--	--
Investment commitment - real estate fund	10,371	10,371	--	--	--
Operating lease obligations	16,989	2,372	3,533	3,696	7,388
Total contractual obligations	$ 330,904	$ 315,636	$ 4,184	$ 3,696	$ 7,388

Guardian's contractual commitments are supported by its strong financial position, including its securities, referred to above under the heading "Liquidity and Capital Resources". The payable to clients, in Guardian's securities dealer subsidiary, which can fluctuate with client activities, is offset by the receivable from clients and broker. Client deposits in the offshore banking subsidiary are supported by the interest-bearing deposits with banks. During the current quarter, to accommodate an existing investor wishing to increase its investment, Guardian sold a portion of its investment in the real estate fund for $6.9 million, but maintained its original commitment to invest a total of $25 million in the fund. As a result, the Company's remaining univested commitment increased to $10.4 million at the end of the current quarter. Subsequent to the quarter-end, Guardian increased its total investment commitment to the fund by $10 million, resulting in its univested commitment increasing to $15.9 million.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended *($ in thousand, except per share amounts)*	**Jun 30, 2016**	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014
Net revenues	**$ 34,191**	$ 35,070	$ 34,353	$ 33,188	$ 33,066	$ 32,304	$ 31,490	$ 30,806
Operating earnings	**10,300**	11,350	10,256	10,876	11,390	10,476	10,335	10,051
Net gains (losses)	**1,028**	16,778	9,658	(2,407)	602	3,187	311	(168)
Net earnings	**9,169**	24,072	17,362	6,278	9,786	11,551	8,438	7,877
Net earnings available to shareholders	**8,887**	23,818	17,138	6,053	9,604	11,310	8,223	7,715
Shareholders' equity	**513,939**	497,656	504,255	470,533	473,944	477,901	488,835	482,242
Net earnings available to shareholders per Class A and Common share:								
Basic	**$ 0.31**	$ 0.83	$ 0.59	$ 0.21	$ 0.33	$ 0.38	$ 0.27	$ 0.26
Diluted	**0.30**	0.79	0.56	0.20	0.31	0.37	0.27	0.25
Shareholders' equity per Class A and Common share:								
Basic	**$ 18.08**	$ 17.51	$ 17.37	$ 15.96	$ 16.08	$ 16.15	$ 16.33	$ 16.08
Diluted	**17.10**	16.63	16.55	15.23	15.32	15.42	15.62	15.39

Management fees earned in the investment management segment and net trailer commissions earned in the financial advisory segment are highly correlated to the level of average AUM and AUA, respectively, and generally not subject to seasonal fluctuations. However, some seasonality is occurring in the commission revenues in the MGA business in the financial advisory segment, 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. In addition, as Guardian continues to increase its non-domestic exposure within the securities portfolio, we are seeing an increase in dividend income in the second and the fourth quarter of each year, due to dividends from foreign equities being paid semi-annually during those periods. The capital reallocation activities, including dispositions of Bank of Montreal shares, investments in the UCITS fund and changes in the investment in real estate fund, have had the effect of changing the level and the frequency of dividend income earned on the corporate holding of securities.

The growth in net revenues during the periods shown above have generally resulted from the following influences: firstly, reflecting the general growth trend in average AUM and improved margins, management fees in the investment management business have generally increased throughout the periods; secondly, there has been a significant growth in commissions earned in the financial advisory business due to the strong growth in the life insurance MGA business, as a result of the acquisitions made in recent years, together with continuing growth in the Dealers; and lastly, dividends and interest income from securities have increased steadily throughout the period as the amounts invested in securities have increased. The exception to this last trend is in the second quarter of 2016, where the reallocation within the security portfolio from the Bank of Montreal shares to the shares of the UCITS fund and the partial sale of the units of the real estate fund resulted in lower level of income being earned from the fund.

Net gains (losses) can fluctuate from quarter to quarter, depending on the level of investment activities and the movements in equity markets and exchange rates. More recently, Guardian disposed of some of its holdings of the Bank of Montreal shares, resulting in significant gains during the quarters ended March 31, 2016 and December 31, 2015. Net gains (losses) can also be influenced by the trading activities within the mutual funds which are consolidated in Guardian's results, such as during the first and third quarters of 2015.

The quarterly fluctuations in Shareholders' equity shown above have been largely caused by changes in the value of Guardian's holdings of securities, including the investment in the Bank of Montreal common shares, less the provision for deferred income taxes and the changes in foreign currency translation adjustment on foreign subsidiaries.

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 2016 Report to Shareholders, 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. In the financial advisory business, market fluctuations can have a significant impact on the amounts being invested by the clients, 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 security holdings are managed independently of clients' assets, except for those of our assets that are invested in Guardian's investment funds.

Portfolio Value and Concentration Risks

Guardian's corporate holding of securities is subject to price risk. The potential impact of market fluctuations on the value of the portfolio is provided in note 13 to Guardian's second quarter 2016 Consolidated Financial Statements. Guardian manages this risk through professional in-house investment management expertise, which takes a disciplined approach to investment management. With the exception of the $343 million investment in the Bank of Montreal shares, which is a 63% (December 31, 2015 – 66%) of Guardian's corporate holding of securities, 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 and growing dividend payments. At the end of the current quarter, the corporate holding of securities were made up of 69% (December 31, 2015 - 72%) Canadian equities, consisting mainly of the Bank of Montreal shares, 29% (December 31, 2015 – 26%) non-Canadian equities and 2% (December 31, 2015 – 2%) fixed income securities. All securities are held by well-known independent custodians chosen by Guardian.

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 foreign currency translation adjustment on foreign subsidiaries on 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 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 considered to be a currency risk, as there is no economic risk to Guardian.

Credit Risk

Due to 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, takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in fixed-income mutual funds and bonds are managed by monitoring the activities of the portfolio manager who, through diversification and credit qualify review of the investments, manages the credit risk. From time to time, advisors in the financial advisory segment may owe to the Dealers or the MGA, advances received or amounts resulting from reversal of commissions. The credit risk associated with these amounts are mitigated by management's review of the ability of the advisors to repay the advances or the potential commission reversals, before amounts are paid to the advisors.

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 risks associated with Guardian's investment in fixed-income mutual funds and bonds are 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 cash flows from various segments of the business, maintaining liquid securities within the securities holdings and by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total $103 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, the securities holdings and the borrowing facilities provide sufficient cash resources to manage its liquidity risk.

Regulatory and Legal Risk

Guardian and its subsidiaries operate in an environment subject to various laws and regulations. Given the nature of certain of Guardian's subsidiaries, they may, from time to time, be subject to claims or complaints from investment clients and sanctions from governing bodies. These risks are mitigated by maintaining relevant in-house competence in laws and regulations, compliance and product review oversight, adequate insurance coverage and, where appropriate, utilizing assistance from external advisors.

Competition Risk

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

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, 2015, Consolidated Financial Statements. The most significant accounting estimates are related to the impairment assessment of goodwill and the determination of fair value of securities which are classified as level 3 within the fair value hierarchy. These valuation approaches are most sensitive to the levels of AUA and annual service fees for goodwill and the level of AUM for the determination of fair value of level 3 securities. No changes to the valuation methodologies were made during the current quarter.

OUTLOOK

The first quarter's global equity market correction appears to be behind us, as most major markets have recovered from their January and February lows. However, there has been a wide range in returns, with North American, British and commodity related emerging market benchmarks tending to outperform the major European bourses and Japan. Global growth still appears mediocre, and China, which until recently had been a major growth engine for the world economy, appears to be one of the most important downside risks to future global growth, as they attempt to transition from a manufacturing and infrastructure-based growth, to a service oriented economy. For much of the current quarter, in contrast to most other central banks worldwide, expectations had been that US, and UK monetary authorities would start to slowly withdraw stimulus from their economies. Toward the end of the second quarter, however, the surprise move by the British electorate to vote to leave the European Union forced the US and UK to hold off on tightening. The UK has in fact instituted some policies to encourage lending and avoid potential economic shocks caused by the BREXIT vote. Currently, it appears as if no major monetary authority is planning on withdrawing stimulus in the near term.

It appears that, for the foreseeable future, the global economy and global financial markets will continue to enjoy monetary and fiscal support. In fact, markets are predicting a low probability of rate hikes in the US for the remainder of the year, despite being the country with the most favourable growth environment. Whether this results in improving global growth and favourable market returns remains to be seen, but having these tailwinds continue is, overall, a positive. These factors could benefit Canada, as we may continue to see some upward movement in commodity prices, as well as benefitting from improved US demand and the low Canadian dollar, to increase exports of goods and services to the US. If this were to happen, we would expect to see increasing earnings from Canadian companies and likely a continuation of the recovery of Canadian equities. Unfortunately, a risk that is starting to appear within the developed world is the growing disenchantment with globalization. If this trend continues, and protectionist measures were to be taken by advanced economies, we might see declines in global trade and growth. This would be especially hard on countries like Canada who rely on global trade for much of their economic output, and it must continue to be monitored.

The performance of the S&P/TSX Composite Index remains the external factor having the greatest effect on Guardian's performance, as the majority of our assets under management or administration are exposed to it. Guardian's efforts to diversify its investment solutions by building its systematic global investment capabilities over the past decade has served to offset a portion of its current high concentration on Canadian equity solutions. We have also decided to invest in additional global capabilities, with the establishment of a UK-based fundamental investment team which, together with our global systematic capabilities, reflects our desire to establish new areas for growth in AUM. As we continue to increase our exposure to global equities in both our underlying assets under management and corporate securities portfolio, Guardian's performance will increasingly be better diversified away from the concentrated risks and economic variables impacting the Canadian equity market towards the broader characteristics of the global developed equity markets.

The Canadian equity markets are also a significant factor for Guardian's financial advisory segment and its assets under administration. However, the segment's improved financial contribution from its MGA, which has lower correlation to the equity markets than our other financial advisory businesses, and the generally balanced allocation of assets under administration throughout the business, better positions this segment to absorb negative impacts should Canadian markets suffer a decline.

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 continue rewarding our shareholders, with returns in the form of both dividends and share buyback.

GUARDIAN
CAPITAL

Our history. Your future.

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