Guardian

Guardian Capital Group Limited
Report to Shareholders

Third Quarter 2016

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the three and nine months ended September 30, 2016. All per share figures disclosed below are stated on a diluted basis.

For the periods ended September 30	**Three Months**		**Nine Months**	
($ in thousands, except per share amounts)	**2016**	2015	**2016**	2015
Net revenues	**$ 35,185**	$ 33,188	**$ 104,446**	$ 98,558
Operating earnings	**10,646**	10,876	**32,296**	32,742
Net gains (losses)	**10,057**	(2,407)	**27,863**	1,382
Net earnings available to shareholders	**17,353**	6,053	**50,058**	26,967
EBITDA	**$ 12,065**	$ 12,115	**$ 36,150**	$ 36,329
Adjusted cash flow from operations	**9,293**	10,385	**28,311**	29,070
Per share:				
Net earnings available to shareholders	**$ 0.58**	$ 0.20	**$ 1.67**	$ 0.88
EBITDA	**0.40**	0.40	**1.21**	1.18
Adjusted cash flow from operations	**0.31**	0.34	**0.95**	0.95

As at	**2016**	**2015**	
($ in millions, except per share amounts)	**September 30**	December 31	September 30
Assets under management	**$ 27,269**	$ 24,278	$ 24,015
Assets under administration	**16,134**	14,943	14,530
Shareholders' equity	**545**	504	471
Corporate holding of securities	**571**	540	507
Per share:			
Shareholders' equity	**$ 18.07**	$ 16.55	$ 15.23
Corporate holding of securities	**18.94**	17.72	16.40

Summary

The Company's assets under management as at September 30, 2016, were $27.3 billion, an increase of 12% from $24.3 billion at the end of 2015 and an increase of 14% from $24.0 billion at September 30, 2015. Assets under administration were $16.1 billion at the end of the current quarter, up 8% from $14.9 billion at the end of 2015 and an 11% increase from $14.5 billion at September 30, 2015.

The Company's operating earnings for the quarter ended September 30, 2016 were $10.6 million, compared to $10.9 million in the same period one year earlier. The Company continues to invest back into its business during the quarter. Our investments to build a UK-based fundamental global and emerging market equities investment management team, the domestic real estate investment management business and the new US distribution team initiated in late Q2 2016 incurred combined operating losses of $1.3 million in the current quarter, up from $0.8 million in the same period in the prior year. 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 $10.1 million for the current quarter are up significantly from net losses of $2.4 million in the same period a year earlier. The net gains in the current quarter resulted largely from the sale of 101,800 Bank of Montreal shares and gains recorded in the consolidated UCITS investment fund managed by the Company's subsidiary.

Net earnings available to shareholders for the current quarter were $17.4 million, or $0.58 per share, compared to $6.1 million, or $0.20 per share, in the same period a year earlier, mainly due to increased net gains during the current quarter.

EBITDA for the current quarter remained substantially unchanged from the same period a year ago at $12.1 million, or $0.40 per share. Adjusted cash flow from operations for the current quarter was $9.3 million, or $0.31 per share, compared to $10.4 million, or $0.34 per share in 2015. 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 September 30, 2016 was $545 million or $18.07 per share, compared to $504 million, or $16.55 per share at December 31, 2015 and $471 million, or $15.23 per share as at September 30, 2015. The Company's corporate holdings of securities as at September 30, 2016 was $571 million, or $18.94 per share, compared to $540 million, or $17.72 per share, as at December 31, 2015 and $507 million, or $16.40 per share, as at September 30, 2015.

Commentary and Outlook

The markets were relatively stable in the third quarter. Market sentiment improved, fostered by continuing growth in the U.S., improving economic statistics in China, and further central bank monetary stimulus. In North America, the S&P/TSX Composite had a return of 5.5%, with a cumulative return of 14.2% for the trailing twelve month period. The S&P 500 had a return of 3.9% during the quarter, with a cumulative return of 15.4% for the trailing twelve month period. (All figures are in local currencies). Globally, most of the markets in the developed world and the larger emerging markets outperformed Canada and the United States. Commodities tended to be flat or slightly negative and did not constitute a major factor in market movements. Global economic growth continues to be slow outside of the U.S., and most signs point to this continuing. While the Federal Reserve ("Fed") in the U.S. seems likely to attempt to tighten monetary policy marginally over the next few months, most monetary authorities worldwide are more focused on maintaining, or increasing existing accommodative policies.

The Canadian economy continues to be impacted by an over-heating domestic housing market, highly leveraged consumers, and low commodity prices, while being buoyed by a resilient U.S. economy. Recent Canadian GDP numbers were positive, showing the economy rebounding after the negative effects of the wildfires in northern Alberta earlier in the year. The U.S. economy has remained resilient despite turmoil in many other developed and emerging markets: Purchase Managers Indices for both manufacturing and services have remained steady in modestly positive territory, the unemployment rate has been stable at below 5%, and signs of inflation are appearing, although from very low levels. Activity in the U.S. market was affected by speculation regarding the pace of interest rate increases by the Fed, which once again kept rates steady, but many market participants are expecting a 25 basis point rate increase at the December Federal Open Markets Committee meeting.

The Company's assets under management ("AUM") have increased 6.3% to $27.3 billion and assets under administration ("AUA") by 4.6% to $16.1 billion in the third quarter. The increase in AUM is due to a combination of positive net new client assets and positive returns on all underlying asset classes managed by the Company. The tailwind provided by the increase in the level of the S&P/TSX over the past 12 months helped to increase AUM by 12.3% versus Q3 2015 and led to increased investment management revenues versus Q3 2015. The Company's AUA, also grew by 11% in the quarter ended September 30, 2016, compared to the same period in 2015. The growth in the Company's net revenues compared to the comparable period in the prior year is largely due to increases in AUM and AUA driven by market returns, and to a lesser extent, net inflows. Operating earnings for the three months ended September 30, 2016 were $10.6 million, compared to $10.9 million in the same period in 2015. The lower operating earnings for the quarter continue to result from our previously disclosed strategy of redeploying capital into key parts of our operating business segments and to reinvest in the business in the form of key hires and other expenditures.

In Q3 2016, we further reduced our investment in the Bank of Montreal ("BMO") shares with the intention of redeploying our resources into our Global Equity strategies. Having higher AUM, through our own investment, in the early stages of these strategies, emphasizes the Company's confidence and alignment with client interests as we pursue investments from third parties, who may otherwise be reluctant to invest in a relatively small fund. The greater alignment of our corporate investment portfolio with client's interests is likely to initiate earlier adoption for these strategies by third parties and accelerate the overall growth in our seeding businesses, the UK-based fundamental global and emerging market operation as well as our Canada-based global systematic team and the real estate investment team. The partial redeployment of our investment portfolio from BMO to these internally managed diversified strategies is likely to reduce corporate investment dividend income earned, in exchange for the pursuit of future business segment operating earnings.

Over the past few quarters, we have added key resources and increased other expenditures as we continue to focus our efforts on building long-term sustainable operating earnings. These additional investments are expected to continue to have a dampening effect on earnings, over the short term. Our investments to build the UK-based fundamental global and emerging market equity investment management team and the domestic real estate investment management business, and to strengthen our distribution capabilities by hiring a U.S.-based wholesaling team in late Q2, incurred operating losses in Q3 of $1.3 million, up from $0.8 million in the same quarter last year. In the financial advisory segment, we are adding 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 creation.

The Company continues to have frequent and high quality discussions with prospective clients regarding a variety of our investment capabilities. Overall, the Company-wide net new asset flows were positive in the quarter. The re-balancing from retail intermediary clients in the past year out of Canadian equity income solutions abated and generally positively flows were experienced across a diverse section of our business. Canadian equities and fixed income strategies remain dominant assets represented in our total AUM. However, as we succeed with growing our global equity strategies, their representation in our total AUM, will likely fluctuate with any significant currency movements compared to our reporting currency, the Canadian dollar.

The Company's corporate holdings of securities represent a large proportion of the total assets on our balance sheet, with a market value of approximately $571 million at September 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 funds to other investments. As at September 30, 2016, we owned 4,086,920 shares with a market value of $351 million, representing approximately 61% 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 gains or losses can be triggered either by a rebalancing of our investment portfolio or due to market fluctuations which can result in large gains or losses within a number of mutual funds we have invested corporate capital into, and which are considered under International Financial Reporting Standards be controlled by the Company. Net gains from investments for the quarter were $10.1 million, compared to a loss of $2.4 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 Q3 2016, the Company paid a dividend of $2.5 million and bought back $2.3 million worth of shares. In October 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 January 18 2017 to shareholders of record on January 11, 2017.

On behalf of the Board,	November 10, 2016
(signed) "James Anas"	(signed) "George Mavroudis"
Chairman of the Board	President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	September 30 2016	December 31 2015
Assets		
Current assets		
Cash	$ 30,544	$ 22,276
Interest-bearing deposits with banks	170,610	112,636
Accounts receivables and other	32,931	28,961
Receivables from clients and broker	57,728	49,125
Prepaid expenses	1,794	2,044
	293,607	215,042
Securities (note 3)		
Securities, gross	637,371	545,571
Less: amounts invested by third parties into consolidated mutual funds	(65,974)	(5,651)
	571,397	539,920
Other assets		
Deferred tax assets	1,613	1,854
Intangible assets	29,113	28,376
Equipment	4,043	4,059
Goodwill	15,014	15,014
Investment in associate	333	333
	50,116	49,636
Total assets	$ 915,120	$ 804,598
Liabilities		
Current liabilities		
Bank loans and borrowings (note 4)	$ 51,510	$ 54,755
Client deposits	170,624	112,687
Accounts payable and other	32,539	30,251
Income taxes payable	4,563	868
Payable to clients	57,728	49,125
	316,964	247,686
Other liability	670	666
Deferred tax liabilities	47,296	47,720
Total liabilities	364,930	296,072
Equity		
Shareholders' equity		
Capital stock (note 5)	20,595	20,929
Treasury stock (note 6)	(22,354)	(21,563)
Contributed surplus	13,524	12,280
Retained earnings	323,184	291,317
Accumulated other comprehensive income	210,390	201,292
	545,339	504,255
Non-controlling interests	4,851	4,271
Total equity	550,190	508,526
Total liabilities and equity	$ 915,120	$ 804,598

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended September 30	**Three Months**		**Nine Months**	
($ in thousands, except per share amounts)	**2016**	2015	**2016**	2015
Net revenues				
Gross commission revenue	**$ 30,692**	$ 29,191	**$ 89,903**	$ 85,371
Commissions paid to advisors	**(21,634)**	(20,630)	**(62,480)**	(60,764)
	9,058	8,561	**27,423**	24,607
Management fee income, net (note 7)	**17,660**	16,364	**50,333**	49,216
Administrative services income	**3,341**	3,190	**10,893**	9,544
Dividend and interest income (note 8)	**5,126**	5,073	**15,797**	15,191
	35,185	33,188	**104,446**	98,558
Expenses				
Employee compensation and benefits	**15,629**	13,809	**45,023**	41,397
Amortization	**1,040**	1,057	**3,115**	2,984
Interest	**192**	196	**633**	673
Other expenses	**7,678**	7,250	**23,379**	20,762
	24,539	22,312	**72,150**	65,816
Operating earnings	**10,646**	10,876	**32,296**	32,742
Net gains (losses) (note 9)	**10,057**	(2,407)	**27,863**	1,382
Net earnings before income taxes	**20,703**	8,469	**60,159**	34,124
Income tax expense	**3,228**	2,191	**9,443**	6,509
Net earnings	**$ 17,475**	$ 6,278	**$ 50,716**	$ 27,615
Net earnings available to:				
Shareholders	**$ 17,353**	$ 6,053	**$ 50,058**	$ 26,967
Non-controlling interests	**122**	225	**658**	648
	$ 17,475	$ 6,278	**$ 50,716**	$ 27,615
Net earnings available to shareholders per Class A and Common share (note 10):				
Basic	**$ 0.61**	$ 0.21	**$ 1.75**	$ 0.91
Diluted	**0.58**	0.20	**1.67**	0.88

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

For the periods ended September 30	**Three Months**		**Nine Months**	
($ in thousands)	**2016**	2015	**2016**	2015
Net earnings	**$ 17,475**	$ 6,278	**$ 50,716**	$ 27,615
Other comprehensive income (loss)				
Available for sale securities, net of taxes:				
Net change in fair value, net of taxes				
Net change in fair value	**22,073**	(17,802)	**39,540**	(54,321)
Income tax provision (recovery)	**2,447**	(1,005)	**4,413**	(6,049)
	19,626	(16,797)	**35,127**	(48,272)
Transfers to net earnings upon disposal, net of taxes				
Unrealized losses (gains)	**(5,638)**	275	**(18,389)**	(807)
Reversal of income taxes	**734**	41	**2,451**	68
	(4,904)	316	**(15,938)**	(739)
Net change in available for sale securities, net of taxes	**14,722**	(16,481)	**19,189**	(49,011)
Net change in foreign currency translation adjustment on foreign subsidiaries	**2,424**	8,841	**(10,091)**	17,141
Other comprehensive income (loss)	**17,146**	(7,640)	**9,098**	(31,870)
Comprehensive income (loss)	**$ 34,621**	$ (1,362)	**$ 59,814**	$ (4,255)
Comprehensive income (loss) available to:				
Shareholders	**$ 34,499**	$ (1,587)	**$ 59,156**	$ (4,903)
Non-controlling interests	**122**	225	**658**	648
Comprehensive income (loss)	**$ 34,621**	$ (1,362)	**$ 59,814**	$ (4,255)

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended September 30	Three Months		Nine Months	
($ in thousands)	**2016**	2015	**2016**	2015
Total equity, beginning of period	**$ 518,668**	$ 477,766	**$ 508,526**	$ 492,234
Shareholders' equity, beginning of period	**513,939**	473,944	**504,255**	488,835
Capital stock				
Balance, beginning of period	**20,668**	21,160	**20,929**	21,434
Acquired and cancelled (note 5c)	**(73)**	--	**(334)**	(274)
Capital stock, end of period	**20,595**	21,160	**20,595**	21,160
Treasury stock				
Balance, beginning of period	**(23,576)**	(21,597)	**(21,563)**	(19,890)
Acquired	**--**	--	**(2,200)**	(1,740)
Disposed of	**1,222**	--	**1,409**	33
Treasury stock, end of period	**(22,354)**	(21,597)	**(22,354)**	(21,597)
Contributed surplus				
Balance, beginning of period	**13,072**	11,543	**12,280**	10,841
Stock-based compensation expense	**463**	387	**1,270**	1,122
Redemption of equity-based entitlements	**(11)**	--	**(26)**	(33)
Contributed surplus, end of period	**13,524**	11,930	**13,524**	11,930
Retained earnings				
Balance, beginning of period	**310,531**	280,370	**291,317**	269,752
Net earnings available to shareholders	**17,353**	6,053	**50,058**	26,967
Dividends declared and paid	**(2,495)**	(2,211)	**(7,231)**	(6,376)
Capital stock acquired and cancelled (note 5c)	**(2,205)**	--	**(10,777)**	(6,131)
Acquisition of non-controlling interests (note 14)	**--**	--	**(183)**	--
Retained earnings, end of period	**323,184**	284,212	**323,184**	284,212
Accumulated comprehensive income				
Balance, beginning of period	**193,244**	182,468	**201,292**	206,698
Unrealized gains on available for sale securities, net of income taxes:				
Balance, beginning of period	**174,213**	164,418	**169,746**	196,948
Net change during period	**14,722**	(16,481)	**19,189**	(49,011)
Balance, end of period	**188,935**	147,937	**188,935**	147,937
Foreign currency translation adjustment on foreign subsidiaries:				
Balance, beginning of period	**19,031**	18,050	**31,546**	9,750
Net change during period	**2,424**	8,841	**(10,091)**	17,141
Balance, end of period	**21,455**	26,891	**21,455**	26,891
Accumulated comprehensive income, end of period	**210,390**	174,828	**210,390**	174,828
Shareholders' equity, end of period	**545,339**	470,533	**545,339**	470,533
Non-controlling interests				
Balance, beginning of period	**4,729**	3,822	**4,271**	3,399
Net earnings available to non-controlling interests	**122**	225	**658**	648
Acquisition of non-controlling interests (note 14)	**--**	--	**(78)**	--
Non-controlling interests, end of period	**4,851**	4,047	**4,851**	4,047
Total equity, end of period	**$ 550,190**	$ 474,580	**$ 550,190**	$ 474,580

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended September 30 *($ in thousands)*	Three Months **2016**	 2015	Nine Months **2016**	 2015
Operating activities				
Net earnings	**$ 17,475**	$ 6,278	**$ 50,716**	$ 27,615
Adjustments for:				
Income taxes paid	**(2,680)**	(1,885)	**(7,679)**	(7,756)
Income tax expense	**3,228**	2,191	**9,443**	6,509
Net (gains) losses	**(10,057)**	2,407	**(27,863)**	(1,382)
Amortization of intangible assets	**856**	880	**2,560**	2,436
Amortization of equipment	**184**	177	**555**	548
Stock-based compensation	**463**	387	**1,270**	1,122
Other non-cash expenses	**(15)**	331	**118**	992
	9,454	10,766	**29,120**	30,084
Net change in non-cash working capital items (note 12)	**475**	3,985	**(1,447)**	(57)
Net cash from operating activities	**9,929**	14,751	**27,673**	30,027
Investing activities				
Net acquisition of securities	**(21,842)**	(3,806)	**(50,432)**	(20,535)
Acquisition of intangible assets	**(2,278)**	(730)	**(4,131)**	(2,465)
Acquisition of equipment	**(92)**	(58)	**(613)**	(139)
Disposition of intangible assets	**506**	442	**1,611**	1,146
Business acquisitions	**--**	--	**--**	(3,548)
Net cash used in investing activities	**(23,706)**	(4,152)	**(53,565)**	(25,541)
Financing activities				
Dividends	**(2,495)**	(2,211)	**(7,231)**	(6,376)
Acquisition and cancellation of capital stock	**(2,278)**	--	**(11,111)**	(6,405)
Acquisition of treasury stock	**--**	--	**(2,200)**	(1,740)
Disposition of treasury stock	**1,222**	--	**1,409**	33
Net (repayments) proceeds of bank loan and bankers acceptances	**4,837**	(11,043)	**(1,643)**	1,659
Net subscriptions from third party investors in consolidated mutual funds	**19,020**	--	**57,935**	--
Acquisition of non-controlling interests	**--**	--	**(261)**	--
Net cash from (used in) financing activities	**20,306**	(13,254)	**36,898**	(12,829)
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	**(369)**	458	**(1,136)**	1,837
Net change in net cash	**6,160**	(2,197)	**9,870**	(6,506)
Net cash, beginning of period	**24,384**	23,459	**20,674**	27,768
Net cash, end of period	**$ 30,544**	$ 21,262	**$ 30,544**	$ 21,262
Net cash represented by:				
Cash			**$ 30,544**	$ 21,435
Net bank indebtedness			**--**	(173)
			$ 30,544	$ 21,262

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 November 10, 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	September 30 2016	December 31 2015
Available for sale securities:		
Short-term securities (i)	$ 11,065	$ 2,058
Bonds	1,141	1,102
Fixed income mutual funds	9,048	8,139
Equity mutual funds	45,526	47,949
Bank of Montreal common shares (ii)	351,312	353,790
Other equity securities	19,499	20,949
Real estate fund (iii)	19,646	22,284
	457,237	456,271
Held for trading securities, net (iv):		
Equity securities	180,134	89,300
Less: investments by third parties in consolidated mutual funds	(65,974)	(5,651)
	114,160	83,649
	$ 571,397	$ 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 nine months to September 30, 2016, the Company sold a total of 444 of its Bank of Montreal common shares (2015 – nil). The gains on these sales are disclosed in note 9.

(iii) During the current quarter, the Company increased its commitment to invest in a real estate fund managed by its subsidiary by $10,000 for a total of $35,000 (2015 - $25,000). At the end of the current quarter $15,934 of this commitment remains outstanding.

(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		September 30 2016		December 31 2015
Level 1	$	487,851	$	449,953
Level 2		69,850		77,049
Level 3		13,696		12,918
	$	571,397	$	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 September 30	Three Months				Nine Months			
		2016		2015		2016		2015
Level 3 securities, beginning of period	$	12,970	$	7,244	$	12,918	$	5,973
Increase in fair value, recognized in Other Comprehensive Income		726		158		778		1,429
Level 3 securities, end of period	$	13,696	$	7,402	$	13,696	$	7,402

4. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at		September 30 2016		December 31 2015
Net bank indebtedness	$	--	$	1,602
Bankers' acceptances payable		51,500		53,100
Bank loan		10		53
	$	51,510	$	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 September 30	2016			2015		
	Shares		Amount	Shares		Amount
Class A shares						
Outstanding, beginning of period	26,990	$	19,742	27,005	$	20,005
Acquired and cancelled	(100)		(73)	--		--
Converted from common	--		--	--		--
Outstanding, end of period	26,890		19,669	27,005		20,005
Common shares						
Outstanding, beginning of period	3,839		926	4,777		1,155
Acquired and cancelled	--		--	--		--
Converted to class A	--		--	--		--
Outstanding, end of period	3,839		926	4,777		1,155
Total outstanding, end of period	30,729	$	20,595	31,782	$	21,160

For the nine months ended September 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	(382)	(281)	(363)	(274)
Converted from common	293	72	--	--
Outstanding, end of period	26,890	19,669	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	30,729 $	20,595	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 September 30	Three Months		Nine Months	
	2016	2015	2016	2015
Shares purchased and cancelled:				
Class A	100	--	382	363
Common	--	--	217	--
Consideration paid	$ 2,278	$ --	$ 11,111	$ 6,405
Average issue price, charged to share capital	(73)	--	(334)	(274)
Excess consideration charged to retained earnings	$ 2,205	$ --	$ 10,777	$ 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 403 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 September 30	Three Months		Nine Months	
	2016	2015	2016	2015
Dividends declared and paid, per share	$ 0.085	$ 0.075	$ 0.245	$ 0.215

The Company has also declared dividends of $0.085 per share payable on October 18, 2016 and January 18, 2017, 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 September 30	2016		2015	
	Shares	Amount	Shares	Amount
Balance, beginning of period	2,396 $	23,576	2,303 $	21,597
Disposed of	(202)	(1,222)	--	--
Balance, end of period	2,194 $	22,354	2,303 $	21,597

For the nine months ended September 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	**(235)**	**(1,409)**	(2)	(33)
Balance, end of period	**2,194**	**$ 22,354**	2,303	$ 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 September 30	Three Months		Nine Months	
	2016	2015	**2016**	2015
Equity based entitlements, beginning of period	**931**	807	**803**	708
Provided	**--**	--	**130**	101
Exercised	**(2)**	(1)	**(4)**	(2)
Equity based entitlements, end of period	**929**	806	**929**	807

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 nine 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 September 30	2016		2015	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,465**	**$ 8.95**	1,496	$ 8.95
Exercised	**(200)**	**6.03**	--	--
Option-like entitlements, end of period	**1,265**	**$ 9.02**	1,496	$ 8.95

For the nine months ended September 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	**(231)**	**5.97**	--	--
Option-like entitlements, end of period	**1,265**	**$ 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 September 30	Three Months		Nine Months	
	2016	2015	**2016**	2015
Management fee income, gross	**$ 18,689**	$ 17,147	**$ 53,218**	$ 51,527
Less: fees paid to referring agents	**(1,029)**	(783)	**(2,885)**	(2,311)
	$ 17,660	$ 16,364	**$ 50,333**	$ 49,216

8. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended September 30	Three Months		Nine Months	
	2016	2015	**2016**	2015
Dividends on Bank of Montreal shares	**$ 3,602**	$ 3,883	**$ 10,927**	$ 11,459
Other dividends	**1,117**	870	**3,656**	2,784
Dividend income	**4,719**	4,753	**14,583**	14,243
Interest income	**407**	320	**1,214**	948
	$ 5,126	$ 5,073	**$ 15,797**	$ 15,191

9. NET GAINS (LOSSES)

Net gains (losses) are composed of the following:

For the periods ended September 30	Three Months		Nine Months	
	2016	2015	**2016**	2015
Held for trading securities, net	**$ 4,438**	$ (1,769)	**$ 8,372**	$ 1,339
Available for sale securities (i)	**5,571**	(274)	**18,658**	810
Net gains (losses) on securities	**10,009**	(2,043)	**27,030**	2,149
Gains on disposal of intangible assets	**292**	244	**824**	526
Foreign exchange gains (losses) (ii)	**(244)**	(608)	**9**	(1,293)
	$ 10,057	$ (2,407)	**$ 27,863**	$ 1,382

(i) Gains and other information pertaining to the Company's sale of its investment in the Bank of Montreal shares are as follows:

For the periods ended September 30	Three Months		Nine Months	
	2016	2015	**2016**	2015
Shares sold	**102**	--	**444**	--
Gains	**$ 5,156**	$ --	**$ 18,792**	$ --
Income tax expense	**683**	--	**2,490**	--

(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 September 30	Three Months		Nine Months	
	2016	2015	**2016**	2015
Weighted average number of Class A and common shares outstanding:				
Basic	**28,482**	29,480	**28,556**	29,564
Effects of outstanding entitlements from stock-based compensation plans	**1,577**	1,422	**1,544**	1,409
Diluted	**30,059**	30,902	**30,100**	30,973
Net earnings available to shareholders:				
Basic	**$ 17,353**	$ 6,053	**$ 50,058**	$ 26,967
Effects of outstanding entitlements from stock-based compensation plans	**54**	111	**175**	334
	$ 17,407	$ 6,164	**$ 50,233**	$ 27,301

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 September 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	**$ --**	$ --	**$ 30,877**	$ 29,393	**$ --**	$ --	**$ (185)**	$ (202)	**$ 30,692**	$ 29,191
Commissions paid to advisors	**--**	--	**(21,634)**	(20,630)	**--**	--	**--**	--	**(21,634)**	(20,630)
	--	--	**9,243**	8,763	**--**	--	**(185)**	(202)	**9,058**	8,561
Management fee income, net	**17,879**	16,094	**--**	--	**--**	--	**(219)**	270	**17,660**	16,364
Administrative services income	**1,435**	1,414	**1,906**	1,776	**--**	--	**--**	--	**3,341**	3,190
Dividend and interest income	**117**	32	**168**	155	**4,847**	5,017	**(6)**	(131)	**5,126**	5,073
	19,431	17,540	**11,317**	10,694	**4,847**	5,017	**(410)**	(63)	**35,185**	33,188
Expenses										
Employee compensation and benefits	**9,163**	7,869	**4,272**	3,847	**2,194**	2,093	**--**	--	**15,629**	13,809
Amortization	**94**	90	**833**	835	**113**	132	**--**	--	**1,040**	1,057
Interest	**53**	54	**45**	51	**133**	139	**(39)**	(48)	**192**	196
Other expenses	**4,803**	4,679	**3,633**	3,407	**(387)**	(821)	**(371)**	(15)	**7,678**	7,250
	14,113	12,692	**8,783**	8,140	**2,053**	1,543	**(410)**	(63)	**24,539**	22,312
Operating earnings	**5,318**	4,848	**2,534**	2,554	**2,794**	3,474	**--**	--	**10,646**	10,876
Net gains (losses)	**(402)**	(435)	**292**	250	**10,167**	(2,222)	**--**	--	**10,057**	(2,407)
Net earnings before income taxes	**4,916**	4,413	**2,826**	2,804	**12,961**	1,252	**--**	--	**20,703**	8,469
Income tax expense	**1,641**	1,427	**841**	747	**746**	17	**--**	--	**3,228**	2,191
Net earnings	**$ 3,275**	$ 2,986	**$ 1,985**	$ 2,057	**$ 12,215**	$ 1,235	**$ --**	$ --	**$ 17,475**	$ 6,278
Net earnings available to:										
Shareholders	**$ 3,275**	$ 2,986	**$ 1,863**	$ 1,832	**$ 12,215**	$ 1,235	**$ --**	$ --	**$ 17,353**	$ 6,053
Non-controlling interests	**--**	--	**122**	225	**--**	--	**--**	--	**122**	225
	$ 3,275	$ 2,986	**$ 1,985**	$ 2,057	**$ 12,215**	$ 1,235	**$ --**	$ --	**$ 17,475**	$ 6,278
Capital expenditures on:										
Intangible assets	**$ --**	$ 30	**$ 2,187**	$ 674	**$ 91**	$ 26	**$ --**	$ --	**$ 2,278**	$ 730
Equipment	**16**	3	**3**	18	**73**	37	**--**	--	**92**	58

For the nine months ended September 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	**$ --**	$ --	**$ 90,432**	$ 85,921	**$ --**	$ --	**$ (529)**	$ (550)	**$ 89,903**	$ 85,371
Commissions paid to advisors	**--**	--	**(62,480)**	(60,764)	**--**	--	**--**	--	**(62,480)**	(60,764)
	--	--	**27,952**	25,157	**--**	--	**(529)**	(550)	**27,423**	24,607
Management fee income, net	**50,283**	48,613	**--**	--	**--**	--	**50**	603	**50,333**	49,216
Administrative services income	**5,137**	4,104	**5,756**	5,440	**--**	--	**--**	--	**10,893**	9,544
Dividend and interest income	**259**	91	**503**	525	**15,050**	14,771	**(15)**	(196)	**15,797**	15,191
	55,679	52,808	**34,211**	31,122	**15,050**	14,771	**(494)**	(143)	**104,446**	98,558
Expenses										
Employee compensation and benefits	**25,962**	23,964	**12,858**	11,158	**6,203**	6,275	**--**	--	**45,023**	41,397
Amortization	**249**	257	**2,504**	2,315	**362**	412	**--**	--	**3,115**	2,984
Interest	**161**	160	**149**	128	**446**	501	**(123)**	(116)	**633**	673
Other expenses	**14,322**	13,788	**11,348**	9,722	**(1,920)**	(2,721)	**(371)**	(27)	**23,379**	20,762
	40,694	38,169	**26,859**	23,323	**5,091**	4,467	**(494)**	(143)	**72,150**	65,816
Operating earnings	**14,985**	14,639	**7,352**	7,799	**9,959**	10,304	**--**	--	**32,296**	32,742
Net gains (losses)	**48**	(946)	**818**	537	**26,997**	1,791	**--**	--	**27,863**	1,382
Net earnings before income taxes	**15,033**	13,693	**8,170**	8,336	**36,956**	12,095	**--**	--	**60,159**	34,124
Income tax expense	**4,439**	4,274	**2,378**	2,316	**2,626**	(81)	**--**	--	**9,443**	6,509
Net earnings	**$ 10,594**	$ 9,419	**$ 5,792**	$ 6,020	**$ 34,330**	$ 12,176	**$ --**	$ --	**$ 50,716**	$ 27,615
Net earnings available to:										
Shareholders	**$ 10,594**	$ 9,419	**$ 5,134**	$ 5,372	**$ 34,330**	$ 12,176	**$ --**	$ --	**$ 50,058**	$ 26,967
Non-controlling interests	**--**	--	**658**	648	**--**	--	**--**	--	**658**	648
	$ 10,594	$ 9,419	**$ 5,792**	$ 6,020	**$ 34,330**	$ 12,176	**$ --**	$ --	**$ 50,716**	$ 27,615
Capital expenditures on:										
Intangible assets	**$ 25**	$ 45	**$ 3,947**	$ 8,507	**$ 159**	$ 26	**$ --**	$ --	**$ 4,131**	$ 8,578
Equipment	**326**	11	**9**	53	**278**	75	**--**	--	**613**	139

As at September 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	**$ 201,108**	$ 167,614	**$ 129,161**	$ 115,906	**$ 636,128**	$ 614,184	**$ (51,277)**	$ (93,106)	**$ 915,120**	$ 804,598
Liabilities	**193,746**	127,609	**127,659**	119,935	**94,802**	141,634	**(51,277)**	(93,106)	**364,930**	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 September 30								
Net revenues	**$ 33,511**	$ 31,400	**$ 1,904**	$ 1,988	**$ (230)**	$ (200)	**$ 35,185**	$ 33,188
For the nine months ended September 30								
Net revenues	**$ 98,512**	$ 93,223	**$ 6,547**	$ 5,836	**$ (613)**	$ (501)	**$ 104,446**	$ 98,558
As at September 30, 2016 and December 31, 2015								
Non-current assets:								
Intangible assets	**$ 27,969**	$ 27,186	**$ 1,144**	$ 1,190	**$ --**	$ --	**$ 29,113**	$ 28,376
Equipment	**3,266**	3,174	**777**	885	**--**	--	**4,043**	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 September 30	Three Months 2016	Three Months 2015	Nine Months 2016	Nine Months 2015
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	$ 4,015	$ 3,587	$ (65,120)	$ 2,175
Accounts receivable and other	(4,412)	1,466	(4,019)	1,854
Receivables from clients and broker	(7,601)	(194)	(8,603)	952
Prepaid expenses	(166)	(259)	170	(82)
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	(3,969)	(3,588)	65,059	(2,198)
Accounts payable and other	5,007	2,779	2,463	(1,806)
Payable to clients	7,601	194	8,603	(952)
	$ 475	$ 3,985	$ (1,447)	$ (57)

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 61% or $351,312 (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 $35,131 (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 September 30, 2016				
Canada	**$ 2,618**	**±$ 262**	**$ 35,373**	**±$ 3,537**
United States	**--**	**--**	**20,853**	**2,085**
Rest of World	**111,542**	**11,154**	**28,445**	**2,845**
	$ 114,160	**±$ 11,416**	**$ 84,671**	**±$ 8,467**
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 $151,804 (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.

iii) Interest rate risk

The Company is exposed to interest rate risk through its bank loans and borrowings of $51,510 (December 31, 2015 - $54,755) and its investments in fixed income mutual funds and bonds of $10,189 (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 $170,610 (December 31, 2015 - $112,636), and the client deposits liability of $170,624 (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	September 30 2016	December 31 2015
Cash	$ 30,544	$ 22,276
Interest-bearing deposits with banks	170,610	112,636
Accounts receivable and other	32,931	28,961
Receivables from clients and broker	57,728	49,125
Short-term securities	11,065	2,058
Bonds	1,141	1,102
Fixed income mutual funds	9,048	8,139
	$ 313,067	$ 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.

(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 September 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 November 10, 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 September 30, 2016, Guardian had $27.3 billion in assets under management ("AUM") and $16.1 billion of financial advisory assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately $571 million at the end of the quarter.

HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2016

For the first time Guardian's AUM and AUA surpassed $27 billion and $16 billion levels, respectively, this quarter.

The operating earnings for the quarter ended September 30, 2016 were $10.6 million, compared to $10.9 million in 2015. Net earnings available to shareholders were $17.4 million, or $0.58 per share, diluted compared to $6.1 million or $0.20 per share, diluted a year ago.

Guardian sold 101,800 of its Bank of Montreal ("BMO") shares during the quarter for a total proceeds of $8.9 million and recognized a gain of $5.2 million. Subsequent to the quarter-end, Guardian used the proceeds to invest into an investment fund managed by Guardian.

Guardian also bought back 100,000 of its shares during the quarter under its Normal Course Issuer Bid, bringing the year-to-date total to 598,850 shares.

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 September 30	Three Months		Nine Months	
($ in thousands)	**2016**	2015	**2016**	2015
Net earnings, as reported	**$ 17,475**	$ 6,278	**$ 50,716**	$ 27,615
Add (deduct):				
Income tax expense	**3,228**	2,191	**9,443**	6,509
Net gains	**(10,057)**	2,407	**(27,863)**	(1,382)
Stock-based compensation	**463**	387	**1,270**	1,122
Interest expense	**192**	196	**633**	673
Amortization	**1,040**	1,057	**3,115**	2,984
Non-controlling interests	**(276)**	(401)	**(1,164)**	(1,192)
EBITDA	**$ 12,065**	$ 12,115	**$ 36,150**	$ 36,329

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 September 30	Three Months		Nine Months	
($ in thousands)	**2016**	2015	**2016**	2015
Net cash from operating activities, as reported	**$ 9,929**	$ 14,751	**$ 27,673**	$ 30,027
Add (deduct):				
Net change in non-cash working capital items	**(475)**	(3,985)	**1,447**	57
Non-controlling interests	**(161)**	(381)	**(809)**	(1,014)
Adjusted cash flown from operations	**$ 9,293**	$ 10,385	**$ 28,311**	$ 29,070

CONSOLIDATED FINANCIAL RESULTS

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

For the periods ended September 30	Three Months		Nine Months	
($ in thousands, except per share amounts)	**2016**	2015	**2016**	2015
Net revenues	**$ 35,185**	$ 33,188	**$ 104,446**	$ 98,558
Expenses	**24,539**	22,312	**72,150**	65,816
Operating earnings	**10,646**	10,876	**32,296**	32,742
Net gains (losses)	**10,057**	(2,407)	**27,863**	1,382
Net earnings before income taxes	**20,703**	8,469	**60,159**	34,124
Income tax expense	**3,228**	2,191	**9,443**	6,509
Net earnings	**$ 17,475**	$ 6,278	**$ 50,716**	$ 27,615
Net earnings available to shareholders	**$ 17,353**	$ 6,053	**$ 50,058**	$ 26,967
EBITDA	**12,065**	12,115	**36,150**	36,329
Adjusted cash flow from operations	**9,293**	10,385	**28,311**	29,070
Diluted per share amounts				
Net earnings available to shareholders	**$ 0.58**	$ 0.20	**$ 1.67**	$ 0.88
EBITDA	**0.40**	0.40	**1.21**	1.18
Adjusted cash flow from operations	**0.31**	0.34	**0.95**	0.95

As at	**2016**	2015	
($ in millions, except per share amounts)	**September 30**	December 31	September 30
Assets under management	**$ 27,269**	$ 24,278	$ 24,015
Assets under administration	**16,134**	14,943	14,530
Shareholders' equity	**545**	504	471
Corporate holding of securities	**571**	540	507
Diluted per share			
Shareholders' equity	**$ 18.07**	$ 16.55	$ 15.23
Corporate holding of securities	**18.94**	17.72	16.40

RESULTS OF OPERATIONS

The AUM at Guardian as at September 30, 2016 was $27.3 billion, up 12% from $24.3 billion at December 31, 2015, and up 14% from $24.0 billion at September 30, 2015. The increases in AUM compared to the end of 2015 and the third quarter of 2015 were largely due to a combination of strong market gains and healthy net inflow of new assets in both our private wealth and retail intermediary businesses in the current quarter. The AUA at September 30, 2016 was $16.1 billion, an 8% increase from $14.9 billion at December 31, 2015 and an 11% increase from $14.5 billion at September 30, 2015. The increases in current quarter's AUA compared to the end of 2015 and the third quarter of 2015 was due to a combination of market improvements, net sales and recruitment during those periods.

For the quarter ended September 30, 2016, Guardian's operating earnings were $10.6 million, compared to $10.9 million reported for the same quarter in 2015. Guardian continues to invest back into its business during the quarter. Our investments to build a UK-based fundamental global and emerging markets equities investment management team, the domestic real estate investment management business and the new US distribution team hired in late Q2 2016, incurred operating losses of $1.3 million in the current quarter, up from $0.8 million in the same period in the prior year. 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 increased by $0.5 million compared to the prior year due to the increased management fee revenue arising from the increased AUM, especially in the private wealth business, offset by the investment into the building of the US distribution and marketing team. The financial advisory segment's operating earnings of $2.5 million for the current quarter remained substantially unchanged compared to the same quarter in 2015. The increase in commission revenue this quarter was offset by additional hires in all parts of the business and additional marketing and promotional expenditures. The operating earnings in the corporate activities and investments segment decreased by $0.6 million compared to the prior year, due largely to Guardian's strategic decision to reallocate a portion of its investment in the BMO shares into the UCITS. The dividend yield from the investment in UCITS is lower than the BMO shares, resulting in lower dividend revenue in the current quarter and the consolidation of the UCITS also resulted in the expenses of the UCITS being included in the corporate activities and investments segment.

Net gains for the current quarter were $10.1 million, compared to a net loss of $2.4 million in 2015. The net gains during the current quarter were largely attributable to the net gains on the sale of the BMO shares and the net gains on held for trading securities held within the UCITS.

Net earnings available to shareholders were $17.4 million in the current quarter, compared to $6.3 million in the same quarter in the prior year. The increase was due largely to the increase in net gains, offset by a slight decrease in operating earnings as described above.

EBITDA for the quarter was $12.1 million, substantially unchanged compared to $12.1 million in 2015. The adjusted cash flow from operations for the quarter was $9.3 million, compared to $10.4 million in 2015. The decrease in adjusted cash flow from operations was due largely to the decrease in operating earnings and the higher tax payments made during the current quarter.

ASSETS UNDER MANAGEMENT

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

As at	2016	2015	
($ in millions)	**September 30**	December 31	September 30
Institutional	**$ 24,211**	$ 21,994	$ 21,832
Private Wealth and International Private Banking	**3,058**	2,284	2,183
Total AUM	**$ 27,269**	$ 24,278	$ 24,015
Institutional AUM is composed of:			
Canadian equities	**$ 13,141**	$ 11,715	$ 12,273
Global equities	**3,346**	3,389	2,982
Fixed income	**7,724**	6,890	6,577
Total Institutional AUM	**$ 24,211**	$ 21,994	$ 21,832

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 third quarter of 2016 were $17.7 million, an 8% increase from $16.4 million in the same quarter in the prior year. The increase was due largely to the increase in the average AUM compared to the same quarter in 2015. Institutional management fees earned in the quarter were $13.2 million, compared to $12.9 million a year earlier. Private wealth and international private banking management fees, net of referral fees paid, earned in the quarter amounted to $4.1 million, compared to $3.4 million a year earlier, due largely to the significant inflow of new assets during the current quarter.

Financial Advisory Commission Revenue

Net commission revenue earned from the financial advisory business is the 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.

The AUA at the end of the current quarter in the financial advisory segment was $16.1 billion, up 11% compared to the prior year, due to a combination of market performance, net sales and recruitment. The premiums on life insurance policies sold by the MGA increased by $5.6 million to $19.1 million in the current quarter, compared to $13.5 million in the prior year. Net commission revenue for the current quarter was $9.1 million, an increase of 6% compared to $8.6 million a year earlier, with both MGA and the Dealers businesses contributing equally to the growth.

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 $3.3 million for the current quarter, compared to $3.2 million a year earlier.

Dividend and Interest Income

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

For the periods ended September 30	Three Months		Nine Months	
($ in thousands)	**2016**	2015	**2016**	2015
Dividends on Bank of Montreal shares	**$ 3,602**	$ 3,883	**$ 10,927**	$ 11,459
Other dividends	**1,117**	870	**3,656**	2,784
Dividend income	**4,719**	4,753	**14,583**	14,243
Interest income	**407**	320	**1,214**	948
	$ 5,126	$ 5,073	**$ 15,797**	$ 15,191

The slight decrease in dividends in the current quarter compared to the same quarter in the prior year is due to the lower number of BMO 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 increased to $24.5 million in the current quarter, compared with $22.3 million in the same quarter of 2015, largely as a result of the planned investments back into the businesses to support their future growth. The increases were the result of the buildup of the UK-based investment management team and the recent US distribution team hires in the investment management segment, and the addition of resources in compliance, administration and technology and the increased marketing expenditures in the financial advisory segment.

NET GAINS (LOSSES)

For the periods ended September 30	Three Months		Nine Months	
($ in thousands)	**2016**	2015	**2016**	2015
Held for trading securities, net	**$ 4,438**	$ (1,769)	**$ 8,372**	$ 1,339
Available for sale securities	**5,571**	(274)	**18,658**	810
Net gains on securities	**10,009**	(2,043)	**27,030**	2,149
Gains on disposal of intangible assets	**292**	244	**824**	526
Foreign exchange losses	**(244)**	(608)	**9**	(1,293)
Net gains	**$ 10,057**	$ (2,407)	**$ 27,863**	$ 1,382

Included in the net gains in the current quarter were $5.2 million in gains from the sale of 101,800 BMO shares and $4 million in net gains recorded in the consolidated UCITS fund. In the third quarter of 2015, the net losses were mainly related to losses recorded in the consolidated UCITS.

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 September 30, 2016 amounted to $545 million, or $18.07 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 September 30, 2016 had a fair value of $571 million, or $18.94 per share, diluted, compared with $540 million, or $17.72 per share, diluted, at the end of 2015. As at September 30, 2016, the securities holdings consisted of 61% BMO shares and 39% 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 28%, compared to 26% at the end of 2015.

Guardian's total bank borrowings at September 30, 2016 amounted to $51.5 million, compared with $54.8 million at the end of 2015. The total credit available, under various borrowing arrangements, amounts to $103 million.

Guardian's adjusted cash flow from operations for the current quarter was $9.3 million. During the quarter, Guardian used the adjusted cash flow from operations and the proceeds from the sale of the BMO shares to partially fund the increased investment in the real estate fund by $4.5 million and short-term securities by $9 million, the dividends paid of $2.5 million, the net advisor recruitment in the amount of $1.8 million and the share buy-backs of $2.3 million.

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

As at	2016	2015	
($ in thousands, except per share amounts)	**September 30**	December 31	September 30
Securities:			
Short-term securities	**$ 11,065**	$ 2,058	$ 8,897
Bonds	**1,141**	1,102	1,100
Fixed income mutual funds	**9,048**	8,139	8,236
Equity mutual funds	**45,526**	47,949	41,697
Bank of Montreal common shares	**351,312**	353,790	344,481
Other equity securities	**199,633**	110,249	82,177
Real estate fund	**19,646**	22,284	22,213
Securities, gross	**637,371**	545,571	508,801
Less: Amounts invested by third parties into consolidated mutual funds	**(65,974)**	(5,651)	(2,277)
Securities, net	**$ 571,397**	$ 539,920	$ 506,524
Total securities per share, diluted	**$ 18.94**	$ 17.72	$ 16.40

During the current quarter, Guardian increased its investment in the real estate fund by $4.5 million. It also sold 101,800 shares of BMO for total proceeds of $8.9 million and the proceeds were invested in short-term securities. Subsequent to the quarter-end the proceeds were used to invest in an investment fund managed by Guardian.

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 September 30, 2016 *($ in thousands)*	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	$ 51,510	$ 51,510	$ --	$ --	$ --
Client deposits	170,624	170,624	--	--	--
Accounts payable and other	37,772	37,102	670	--	--
Payable to clients	57,728	57,728	--	--	--
Investment commitment - real estate fund	15,934	15,934	--	--	--
Operating lease obligations	16,347	2,286	3,447	3,711	6,903
Total contractual obligations	$ 349,915	$ 335,184	$ 4,117	$ 3,711	$ 6,903

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 Guardian increased its investment commitment to the real estate 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)*	**Sep 30, 2016**	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014
Net revenues	**$ 35,185**	$ 34,191	$ 35,070	$ 34,353	$ 33,188	$ 33,066	$ 32,304	$ 31,490
Operating earnings	**10,646**	10,300	11,350	10,256	10,876	11,390	10,476	10,335
Net gains (losses)	**10,057**	1,028	16,778	9,658	(2,407)	602	3,187	311
Net earnings	**17,475**	9,169	24,072	17,362	6,278	9,786	11,551	8,438
Net earnings available to shareholders	**17,353**	8,887	23,818	17,138	6,053	9,604	11,310	8,223
Shareholders' equity	**545,339**	513,939	497,656	504,255	470,533	473,944	477,901	488,835
Per Class A and Common share:								
Net earnings available to shareholders								
Basic	**$ 0.61**	$ 0.31	$ 0.83	$ 0.59	$ 0.21	$ 0.33	$ 0.38	$ 0.27
Diluted	**0.58**	0.30	0.79	0.56	0.20	0.31	0.37	0.27
Shareholders' equity								
Basic	**$ 19.11**	$ 18.08	$ 17.51	$ 17.37	$ 15.96	$ 16.08	$ 16.15	$ 16.33
Diluted	**18.07**	17.10	16.63	16.55	15.23	15.32	15.42	15.62
Dividends paid	**$ 0.085**	$ 0.085	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.065	$ 0.065

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 exists in the commission revenues in the MGA business, where the last quarter of the year sees an increase in revenues from "volume bonuses" earned from the life insurance companies. These volume bonuses are increasing each year and are becoming more significant as the business continues to grow. 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 has 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; and secondly, there has been a significant growth in commissions earned in the financial advisory segment due to the strong growth in the life insurance MGA business as a result of the acquisitions made in recent years and continued success in recruitment of advisors, together with continuing growth in the Dealers. During 2015, the reallocation within the security portfolio from the BMO shares to investments in the UCITS fund and other securities have resulted in lower level of income being earned from the securities. This is consistent with Guardian's strategic plan to reallocate its capital to support the growth of operating segments. In the short-term, the lower income from securities is expected to continue while the businesses in the operating segments develop with the expectation that it will lead to higher earnings in the future.

Operating earnings have been influenced by the growth in revenues described above, offset by the additional expenditures associated with Guardian's strategic plan to invest back into the business in the form of additional resources and other expenditures.

Net gains (losses) can fluctuate from quarter to quarter for several reasons. Net gains (losses) on held for trading securities, mainly the securities held within the consolidated mutual funds, can fluctuate depending on the level of investment activities and the movements in equity markets. On available for sale securities, it can fluctuate based on the timing of the disposition of securities. The more significant disposals of available for sale securities occurred in the quarter ended September 30, 2016, March 31, 2016 and December 31, 2015 when Guardian disposed some of its holdings of BMO shares. In addition, net gains (losses) may fluctuate due to the exchange rate movements on non-functional currencies held, as in the quarters ended September 30, 2015, March 31, 2015 and December 31, 2014.

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 BMO 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 Third 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 $351 million investment in the Bank of Montreal shares, which is a 61% (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 68% (December 31, 2015 - 72%) Canadian equities, consisting mainly of the Bank of Montreal shares, 28% (December 31, 2015 – 26%) non-Canadian equities and 4% (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 advisors' ability to repay the advances or the potential commission reversals, particularly in the MGA business, before amounts are paid to the advisors.

Interest Rate Risk

Guardian 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

Aside from the United States, where moderate growth continues and some signs of inflationary pressures, the global economy remains in a prolonged subpar recovery. As a result, we expect global monetary easing will continue for some time. The nature and pace of the divergence we had been witnessing in the two broad paths within the major central banks has changed. The U.S. Federal Reserve (Fed) and the Bank of England (BOE) had been heading towards a reduction in easing conditions, while on the other side, the European Central Bank (ECB), Bank of Japan (BOJ) and People's Bank of China (PBOC) maintained their easing bias. The expected fallout from Brexit now has the BOE easing while the Fed has been delayed in its efforts to normalize monetary conditions. The ECB, BOJ and the PBOC continue to maintain their easing bias. The Bank of Canada will likely remain on the sidelines from further interest rate cuts for the near-term if economic conditions improve as expected. In general, worldwide monetary, and in many cases, fiscal accommodation is likely to offset the minor tightening expected in the U.S. and provide support to markets. However, there is still a reason to be concerned that this massive stimulus may create unforeseen unbalances and cause problems for the economy in the future.

Equities appear somewhat expensive measured against historical valuation metrics, the S&P 500 is trending higher than the long-term averages for P/E and dividend yield and slightly below for earnings yield, the S&P/TSX is above the long-term averages for trailing and forward looking P/E, slightly below for earnings yield and above on dividend yield, and as measured by the MSCI World Index, global equities appear relatively close to historical P/E levels with trailing P/E slightly above the historical average while P/E on a forward basis is above the average. However, global disinflationary forces are driving inflation expectations and nominal interest rates lower. Longer-term yields have fallen and are extremely low by any historical measure, due to significant central bank intervention. As a result, equities globally appear quite inexpensive when compared with the returns to be expected from fixed income investments. In addition a huge amount of liquidity is being pumped into economies by central banks worldwide and much of it is likely to find its way into equity markets providing a buffer against the high absolute valuations. In general, global equities continue to appear relatively attractive compared to interest rates.

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 ("AUM") or assets under administration ("AUA") 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 are also investing 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 AUM 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 AUA. However, the segment's 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 AUA throughout the business, better positions this segment to absorb negative impacts should Canadian markets suffer a decline.

The establishment of our UK office and the hiring of a distribution team in the US reflects our desire to tap into new markets for our next phase of growth. To support these growth plans we have also invested over $200 million of our own capital into our strategies to give it greater scale and better align our interest with those of our clients and prospective clients, with the expectations that it will accelerate the growth in those strategies. Although we continue to incur operating losses in these businesses currently, we are encouraged by the frequent and high quality discussions we continue to have with existing and prospective clients regarding these investment capabilities.

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, by paying out cash in the form of both dividends and share buybacks.

Our history. Your future.

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