



What are you doing after work?

---

AGF MANAGEMENT LIMITED

**Second Quarter Report to Shareholders** for the three and six months ended May 31, 2009

---

AGF MANAGEMENT LIMITED REPORTS SECOND QUARTER FINANCIAL RESULTS

## AGF reports net income of \$17.2 million, an increase of 41% over the first quarter of 2009

Toronto | June 24, 2009

AGF Management Limited (AGF) today announced financial results for the second quarter ended May 31, 2009 with net income of \$17.2 million, up \$5.0 million from net income reported in the first quarter ended February 28, 2009. Net income was down from \$44.0 million in the same period in 2008 as a result of declines in Investment Management Operations revenue primarily related to declines in global markets and an increase in Trust Company Operations provision for loan losses. This was partly offset by reductions in Investment Management Operations expenses and lower income tax and amortization expenses.

Earnings per share in the second quarter of 2009, on a fully diluted basis, were \$0.19 compared with \$0.14 in the first quarter of 2009 and \$0.49 in the second quarter of last year.

Although the global economy still faces strong challenges which will continue to impact the industry, the second quarter did show signs of improvement over the first quarter of 2009 with AGF reporting a 14.7% increase in assets under management (AUM), a 4.0% increase in revenue, and a 14.5% increase in earnings before interest, taxes, depreciation and amortization (EBITDA). Year-over-year results, however, show that the economy has yet to normalize as evidenced by second quarter numbers that show a 27.7% decline in AUM, a 26.1% decline in revenue and a 44.7% decrease in EBITDA compared with the same period a year earlier.

"The second quarter saw an improvement in global markets with higher indices contributing to our increased AUM levels and improved profitability compared to the first quarter," said Chairman and CEO Blake C. Goldring. "While encouraged by these trends, we remain committed to strengthening the business by rationalizing costs, improving our future operating capabilities and focusing on risk management to ensure we remain well positioned for future long-term growth"

In the second quarter, the 2009 Canadian Lipper Awards honoured AGF with nine recognitions including two coveted group awards. AGF was awarded the Best Overall Fund Family and the Best Mixed Asset Fund Family for having the best overall risk-adjusted performance, relative to its peers in both categories. AGF Canadian Balanced Fund was a triple winner recognized for having the best one-, three- and five-year returns. Four other AGF funds were also recognized for performance.

During this quarter, total consolidated revenue decreased to \$143.5 million compared with \$194.3 million in the second quarter of the prior year. EBITDA totalled \$49.0 million for the three months ended May 31, 2009, compared with \$88.6 million for the three months ended May 31, 2008. For the second quarter of 2009, EBITDA margins declined to 34.1% from 45.6% in the same period a year earlier.

Total AUM decreased 27.7% to \$37.4 billion at May 31, 2009 from \$51.8 billion as at May 31, 2008. Over the same period, mutual fund assets declined by 27.0% primarily as a result of market depreciation combined with net redemptions. However, the level of net redemptions has shown improvement on a year-over-year basis. Institutional and high-net-worth client assets declined 28.6% year-over-year primarily as a result of market depreciation.

Also in the quarter, in keeping with our stated strategy to slow loan growth and suspend new originations of lower margin lending products, our Trust Company Operations loan assets declined 5.3% over May 31, 2008 to \$4.1 billion as at May 31, 2009. AGF Trust remained focused on credit and collections activities in the second quarter of 2009 to mitigate potential future loan losses.

### **Caution Regarding Forward-Looking Statements**

This Management's Discussion and Analysis (MD&A) includes forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as 'expects', 'anticipates', 'intends', 'plans', 'believes' or negative versions thereof and similar expressions, or future or conditional verbs such as 'may', 'will', 'should', 'would' and 'could'. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action on our part, is also a forward-looking statement. Forward-looking statements are based on certain factors and assumptions, including expected growth, results of operations, business prospects, performance and opportunities. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about our operations, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by us due to, but not limited to, important factors such as level of assets under our management, volume of sales and redemption of our investment products, performance of our investment funds and of our investment managers and advisors, competitive fee levels for investment management products and administration, and competitive dealer compensation levels, size and default experience on our loan portfolio and cost efficiency in our loan operations, as well as interest and foreign exchange rates, taxation, changes in government regulations, unexpected judicial or regulatory proceedings, and our ability to complete strategic transactions and integrate acquisitions. We caution that the foregoing list is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than specifically required by applicable laws, we are under no obligation (and expressly disclaim any such obligation) to update or alter the forward-looking statements, whether as a result of new information, future events or otherwise. For a more complete discussion of the risk factors that may impact actual results, please refer to the 'Managing Risk – Overview' section of this MD&A and to the 'Risk Factors and Risk Management' section of our 2008 annual MD&A.

## Dear fellow shareholders

Before getting into the highlights of the second quarter, I would like to pay tribute to our co-founder and Honorary Chairman C. Warren Goldring who passed on April 14, 2009. Warren co-founded AGF with the introduction of the American Growth Fund in 1957 – the first U.S. equity fund for Canadian investors. He saw mutual funds as a way for all Canadians to build wealth and achieve their dreams and aspirations. And today, we, at AGF, believe as firmly as Warren did that mutual funds are and will continue to be an integral part of all Canadians' financial planning and success. Warren's values of innovation, hard work and integrity are firmly entrenched in the way we do business at AGF. His legacy is a culture that focuses on the long term and fosters a spirit of independence in thought and in action that continues to guide us in our mission of helping investors succeed.

One of the highlights of our second quarter was the announcement of the realignment of our corporate structure. This realignment involves combining our retail, institutional and high-net-worth businesses to create a consolidated investments structure. This new, more streamlined structure better reflects our core focus on investment management and our commitment to clients and excellence in money management. As part of the realignment, we also announced a number of executive management changes. Our executive management team comes with a wealth and diversity of experience and expertise and is truly committed and enthusiastic about leading AGF into the future.

In the quarter, AGF was honoured with nine recognitions at the 2009 Canadian Lipper Awards including two coveted group awards. AGF was awarded the Best Overall Fund Family and the Best Mixed Asset Fund Family for having the best overall risk-adjusted performance, relative to its peers in both categories. AGF Canadian Balanced Fund was a triple winner recognized for having the best one-, three- and five-year returns. Four other AGF funds were also recognized for performance.

The mutual fund industry appeared to show some early signs of recovery during the second quarter. The rally in stock markets lifted mutual fund assets and net sales of long-term funds showed an improving trend in April and May. Total assets under management (AUM) at AGF were \$37.4 billion at the end of the second quarter of fiscal 2009, down 27.7% from May 2008 levels but up 14.7% since the end of February 2009. On a year-over-year basis, Investment Management revenues were down 30.6% for the quarter. Accordingly, we will continue to focus on improving gross mutual fund sales while taking further action to reduce costs in a manner that enhances our future operating capabilities and sustainability.

Our Trust Company Operations continued to focus on responsible management of our lending portfolios through the second quarter of 2009. Loan assets declined 5.3% year-over-year at May 31, 2009 and net interest income increased 2.4%. This deceleration of growth in our Trust business reflects our stated strategy to ensure that AGF Trust remains well-capitalized during the economic downturn and focuses on increased credit and collection activities, reducing operating expenses and managing liquidity. AGF Trust remained a profitable contributor to AGF during the second quarter of fiscal 2009 in spite of the increased provision for loan losses.

Consolidated revenue was \$143.5 million, compared with \$194.3 million in the second quarter of the prior year. Earnings before interest, taxes, depreciation and amortization<sup>1</sup> (EBITDA) from continuing operations declined to \$49.0 million from \$88.6 million for the three months ended May 31, 2008 as declining revenue outpaced expense savings. Selling, general and administrative (SG&A) expenses of \$47.3 million were 16.7% lower compared to \$56.8 million in the second quarter of last year. We continue to target permanent SG&A expense savings compared with 2008.

For the three months ended May 31, 2009, AGF reported cash flow from continuing operations<sup>1</sup> (before net change in non-cash balances related to operations) of \$44.7 million, compared with \$71.5 million one year ago. Free cash flow<sup>1</sup> (cash flow from continuing operations less selling commissions paid) for the same period was \$29.3 million, compared with \$43.6 million one year ago.

With over 50 years in business, we have lived through many bull and bear markets and our key focus continues to be providing excellence in the investment management business. We believe that prudent management of our expenses and balance sheet will allow AGF to continue to weather the downturn and positions us appropriately for the future. We remain committed to achieving our long-term objectives and delivering superior value to our shareholders, clients and unitholders.



**Blake C. Goldring, M.S.M., CFA**  
**Chairman and Chief Executive Officer**  
**June 24, 2009**

<sup>1</sup> Cash flow from continuing operations, free cash flow and EBITDA are non-GAAP measures. Please refer to pages 5 and 6 of this report for definitions of these metrics.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

For the three and six months ended May 31, 2009

This Management's Discussion and Analysis (MD&A) presents an analysis of the financial condition of AGF Management Limited and its subsidiaries (AGF) as at May 31, 2009, compared with November 30, 2008. The MD&A also includes the results of operations for the three and six months ended May 31, 2009, compared with the corresponding periods of 2008. This discussion should be read in conjunction with our 2008 annual MD&A and 2008 annual audited Consolidated Financial Statements and Notes. Certain comparative amounts in these financial statements have been reclassified to conform with the current year's presentation. The financial information presented herein has been prepared on the basis of Canadian Generally Accepted Accounting Principles (GAAP). Percentage changes are calculated using numbers, rounded to the decimals that appear in this MD&A. All dollar amounts are in Canadian dollars unless otherwise indicated.

There have been no material changes to the information discussed in the following sections of the 2008 annual MD&A: "Risk Factors and Risk Management", "Controls and Procedures", "Contractual Obligations", "Intercompany and Related Party Transactions" and "Government Regulations". The "Key Performance Indicators and Non-GAAP Measures" section contains a reconciliation of non-GAAP measures to GAAP measures.

## Overview

With \$37.4 billion in assets under management (AUM) as at May 31, 2009, AGF is one of Canada's premier investment management companies, with operations and investments in Canada, the United States, the United Kingdom, Ireland and Asia. The origin of our Company dates back to 1957 with the introduction of the American Growth Fund, the first mutual fund available to Canadians seeking to invest in the United States. As of May 31, 2009, our products and services include a diversified family of award-winning mutual funds, AGF Elements portfolios, the Harmony asset management program, services for institutional and high-net-worth clients, as well as AGF Trust GICs, loans and mortgages.

For purposes of this discussion, the operations of AGF and our subsidiary companies are referred to as "we", "us", "our" or "the Company". The financial results relating to the operations have been reported in three segments: Investment Management Operations, Trust Company Operations and Other.

The Investment Management Operations segment includes the results of our retail mutual fund, institutional and high-net-worth client businesses. The Trust Company Operations segment includes the results of AGF Trust Company, and the Other segment includes our equity interest in Smith and Williamson Holdings Limited (S&WHL).

## Strategy and Quarterly Overview

As stated in our 2008 annual MD&A, our overall business strategy is to foster the development of best-in-class operating segments to provide world-class financial services to investors in Canada and internationally. During the second quarter of 2009, we announced the realignment of our organizational structure to combine our retail, institutional and high-net-worth businesses to operate under one banner: AGF Investments. While the organizational realignment of resources has occurred, the legal structural change and associated name change to our new "AGF Investments" banner is expected to be completed later in 2009 or early 2010. This realignment better reflects our core focus on investment management and will allow us to more effectively execute our overall strategy. We continue to identify opportunities within our business segments to ensure that the appropriate resources are allocated to each of these segments to maximize shareholder value over the long term. Our strategy also recognizes that our investment management and trust businesses operate in cyclical industries and our financial results will be affected by global stock markets, credit availability, employment levels and other economic factors.

Operating conditions improved in the second quarter of 2009 compared to the first quarter, resulting in improved profitability and increasing AUM levels. However, operating conditions in the second quarter of 2009 compared to the same quarter in 2008 remained challenging. During the second quarter of 2009:

- Revenue decreased 26.1% as compared with the same period in 2008, driven primarily by a 30.6% decline in Investment Management Operations revenue which was directly related to lower year-over-year AUM levels. Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased 44.7% during the same period to \$49.0 million as declining revenue outpaced expense savings.
- EBITDA margin increased to 34.1% in the second quarter of 2009 as compared to 31.0% in the first quarter of 2009.

- Net income decreased 60.9% over the same period in 2008 primarily due to a decline in Investment Management Operations revenue and an increase in Trust Company Operations provision for loan losses. This was partly offset by declines in selling, general and administrative (SG&A) and trailing commissions expenses and lower income tax and amortization expenses.
- Total AUM declined 27.7% from \$51.8 billion at May 31, 2008 to \$37.4 billion as at May 31, 2009. AUM increased by 14.7% from \$32.6 billion at February 28, 2009 due to improving stock markets during the second quarter of 2009.
- SG&A expenses declined 16.7% in the quarter ended May 31, 2009 as compared to the corresponding period in 2008 as a result of cost reduction initiatives across the Company.
- AGF Trust real estate secured loan assets declined 9.1% over the previous year and investment loans declined 2.2% with total loan assets declining 5.3% year-over-year. This decline in loan assets is reflective of our strategy to suspend new originations of lower margin lending products and slow loan growth in 2009.
- In spite of a higher provision for loan losses, AGF Trust remained profitable in the second quarter of 2009, representing 18.2% of AGF Management Limited's pre-tax income.
- We delivered value directly to our shareholders through dividend payments. Dividends paid, including dividends reinvested, on Class A voting common shares (Class A shares) and Class B non-voting shares (Class B shares) remained steady at \$22.2 million in the second quarter of 2009 compared to \$22.3 million in the same period in 2008.

## Key Performance Indicators and Non-GAAP Measures

We measure the success of our business strategies using a number of key performance indicators (KPIs), which are outlined below. With the exception of revenue, the following KPIs are not measurements in accordance with Canadian GAAP. They should not be considered as an alternative to net income or any other measure of performance under Canadian GAAP. Segment discussions include a review of KPIs that are relevant to each segment.

### (a) Consolidated Operations

#### Revenue

Revenue is a measurement defined by Canadian GAAP and is recorded net of fee rebates, sales taxes and distribution fees paid to limited partnerships. Revenue is indicative of the potential to deliver cash flow.

We derive our revenue principally from a combination of:

- management and advisory fees based on AUM
- deferred sales charges (DSC) earned from investors when mutual fund securities sold on a DSC basis are redeemed
- net interest income earned on AGF Trust's loan portfolio

#### EBITDA

We define EBITDA as earnings before interest, taxes, depreciation and amortization. EBITDA is a standard measure used in the mutual fund industry by management, investors and investment analysts to understand and compare results. We believe this is an important measure because it allows us to assess our investment management businesses without the impact of amortization. EBITDA for the Trust Company Operations segment includes interest expense related to deposits. These deposits fund our investment loan and real estate secured loan programs and are therefore considered an operating cost directly related to generating interest revenue. We include this interest expense in Trust Company Operations EBITDA to provide a meaningful comparison to our other business segments and our competitors.

Please see the "Consolidated Operating Results" section on page 12 of this MD&A for a schedule showing how EBITDA reconciles to our GAAP financial statements.

#### Cash Flow from Operations

We report cash flow from operations before net changes in non-cash balances related to operations. Cash flow from operations helps to assess the ability of the business to generate cash, which is used to pay dividends, repurchase shares, pay down debt and fund other needs.

Management's Discussion and Analysis  
of Financial Condition and Results of Operations

| (\$ millions)  | Three months ended May 31, |          | Six months ended May 31, |          |
|--|----------------------------|----------|--------------------------|----------|
|  | 2009                       | 2008     | 2009                     | 2008     |
| Net cash provided by continuing operating activities         | \$ 52.0                    | \$ 174.9 | \$ 58.0                  | \$ 187.0 |
| Less: net changes in non-cash balances related to operations | 7.3                        | 103.4    | (33.4)                   | 32.1     |
| Cash flow from continuing operations                         | \$ 44.7                    | \$ 71.5  | \$ 91.4                  | \$ 154.9 |

### Free Cash Flow from Operations

We define free cash flow as cash flow from operations before net changes in non-cash balances related to operations less selling commissions paid. This is a relevant measure in the investment management business since a substantial amount of cash is spent on upfront commission payments. Free cash flow represents cash available for distribution to our shareholders or for general corporate purposes.

| (\$ millions)  | Three months ended May 31, |         | Six months ended May 31, |          |
|--|----------------------------|---------|--------------------------|----------|
|  | 2009                       | 2008    | 2009                     | 2008     |
| Cash flow from continuing operations (defined above) | \$ 44.7                    | \$ 71.5 | \$ 91.4                  | \$ 154.9 |
| Less: selling commissions paid                       | 15.4                       | 27.9    | 27.9                     | 54.7     |
| Free cash flow                                       | \$ 29.3                    | \$ 43.6 | \$ 63.5                  | \$ 100.2 |

### EBITDA Margin

EBITDA margin provides useful information to management and investors as an indicator of our overall operating performance. We believe EBITDA margin is a valuable measure because it assesses the extent we are able to earn profit from each dollar of revenue. We define EBITDA margin as the ratio of EBITDA to revenue.

| (\$ millions)      | Three months ended May 31, |         | Six months ended May 31, |          |
|--------------------|----------------------------|---------|--------------------------|----------|
|                    | 2009                       | 2008    | 2009                     | 2008     |
| EBITDA             | \$ 49.0                    | \$ 88.6 | \$ 91.8                  | \$ 178.2 |
| Divided by revenue | 143.5                      | 194.3   | 281.5                    | 388.7    |
| EBITDA margin      | 34.1%                      | 45.6%   | 32.6%                    | 45.8%    |

### Pre-Tax Profit Margin

Pre-tax profit margin provides useful information to management and investors as an indicator of our overall operating performance. We believe pre-tax profit margin is a valuable measure because it assesses the extent we are able to earn profit from each dollar of revenue. We define pre-tax profit margin as the ratio of income before taxes to revenue.

| (\$ millions)         | Three months ended May 31, |         | Six months ended May 31, |          |
|-----------------------|----------------------------|---------|--------------------------|----------|
|                       | 2009                       | 2008    | 2009                     | 2008     |
| Net income            | \$ 17.2                    | \$ 44.0 | \$ 29.4                  | \$ 106.7 |
| Add: income taxes     | 5.8                        | 13.7    | 9.9                      | 7.5      |
| Income before taxes   | 23.0                       | 57.7    | 39.3                     | 114.2    |
| Divided by revenue    | 143.5                      | 194.3   | 281.5                    | 388.7    |
| Pre-tax profit margin | 16.0%                      | 29.7%   | 14.0%                    | 29.4%    |

### Return on Equity (ROE)

We monitor ROE to assess the profitability of the consolidated Company on an annual basis. We calculate ROE by dividing net income in the quarter annualized by average shareholders' equity.

| For the three months ended<br>(\$ millions) | May 31,<br>2009 | May 31,<br>2008 |
|---|-----------------|-----------------|
| Net income (annualized)                     | \$ 68.8         | \$ 176.0        |
| Divided by average shareholders' equity     | 1,094.3         | 1,127.9         |
| Return on equity                            | 6.3%            | 15.6%           |

### Long-term Debt to EBITDA Ratio

Long-term debt to EBITDA ratio provides useful information to management and investors as an indicator of our ability to service our long-term debt. We define long-term debt to EBITDA ratio as long-term debt at the end of the period divided by EBITDA in the quarter annualized.

| For the three months ended<br>(\$ millions) | May 31,<br>2009 | May 31,<br>2008 |
|---|-----------------|-----------------|
| Long-term debt                              | \$ 194.7        | \$ 172.0        |
| EBITDA (annualized)                         | 196.0           | 354.4           |
| Long-term debt to EBITDA                    | 99.3%           | 48.5%           |

## (b) Investment Management Operations

### Assets Under Management (AUM)

The amount of AUM is critical to our business since it is from these assets that we generate fees from our mutual fund, institutional, strategic accounts and high-net-worth relationships. AUM will fluctuate in value as a result of investment performance, sales and redemptions. Mutual fund AUM determine a significant portion of our expenses because we pay upfront commissions and trailing commissions to financial advisors, as well as investment advisory fees based on the value of AUM.

### Investment Performance

Investment performance, which represents market appreciation (depreciation) of fund portfolios and is shown net of management fees received, is a key driver of the level of AUM and is central to the value proposition that we offer advisors and unitholders. Growth in AUM resulting from investment performance increases the wealth of our unitholders, and, in turn, we benefit from higher revenues. Alternatively, poor relative investment performance will reduce our AUM levels and result in lower management fee revenues. Strong relative investment performance may also contribute to gross sales growth or reduced levels of redemptions. Conversely, poor relative investment performance may result in lower gross sales and higher levels of redemptions. Refer to the Managing Risk section of this report for further information.

### Net Sales

One of the goals of our mutual fund business is to generate positive net sales on an annual basis, which allows for increasing revenues. Gross sales and redemptions as a percentage of AUM are monitored separately and the sum of these two amounts comprises net sales. Net sales, together with investment performance and fund expenses, determine the level of average daily mutual fund AUM. This is the basis on which management fees are charged. The average daily mutual fund AUM is equal to the average daily net asset value of the AGF mutual funds.

We monitor inflows and outflows in our high-net-worth client and institutional businesses separately. We do not compute an average daily AUM figure for them.

### EBITDA Margin

EBITDA margin provides useful information to management and investors as an indicator of our operating performance in our Investment Management Operations segment. We believe EBITDA margin is a valuable measure since it assesses the extent we are able to earn profit from each dollar of revenue. We define EBITDA margin as the ratio of EBITDA to revenue.

| (\$ millions)      | Three months ended May 31, |         | Six months ended May 31, |          |
|--------------------|----------------------------|---------|--------------------------|----------|
|                    | 2009                       | 2008    | 2009                     | 2008     |
| EBITDA             | \$ 41.8                    | \$ 71.5 | \$ 76.6                  | \$ 146.3 |
| Divided by revenue | 113.0                      | 162.9   | 222.9                    | 328.1    |
| EBITDA margin      | 37.0%                      | 43.9%   | 34.4%                    | 44.6%    |

### Pre-Tax Profit Margin

Pre-tax profit margin provides useful information to management and investors as an indicator of our operating performance in our Investment Management Operations segment. We believe pre-tax profit margin is a valuable measure because it assesses the extent we are able to earn profit from each dollar of revenue. We define pre-tax profit margin as the ratio of income before taxes and non-segmented items to revenue.

| (\$ millions)                               | Three months ended May 31, |         | Six months ended May 31, |         |
|---|----------------------------|---------|--------------------------|---------|
|   | 2009                       | 2008    | 2009                     | 2008    |
| Income before taxes and non-segmented items | \$ 18.3                    | \$ 43.6 | \$ 28.9                  | \$ 89.0 |
| Divided by revenue                          | 113.0                      | 162.9   | 222.9                    | 328.1   |
| Pre-tax profit margin                       | 16.2%                      | 26.8%   | 13.0%                    | 27.1%   |

## (c) Trust Company Operations

### Loan Asset Growth

In the Trust Company Operations segment (AGF Trust), we focus on long-term, profitable growth and credit quality in our investment and real estate secured loans. New originations, net of repayments, drive the outstanding balance of loans on which we charge interest. Loan asset growth increases our revenue and assists with our ability to grow our profits in AGF Trust.

### Net Interest Income

Net interest income is a common lending industry performance indicator. We monitor this figure to evaluate the growth of the financial contribution of AGF Trust. The figure is calculated by subtracting interest expense from interest income earned from AGF Trust loan assets.

| (\$ millions)          | Three months ended May 31, |         | Six months ended May 31, |          |
|------------------------|----------------------------|---------|--------------------------|----------|
|                        | 2009                       | 2008    | 2009                     | 2008     |
| Interest income        | \$ 58.6                    | \$ 76.0 | \$ 125.3                 | \$ 152.8 |
| Less: interest expense | 32.9                       | 50.9    | 73.1                     | 104.9    |
| Net interest income    | \$ 25.7                    | \$ 25.1 | \$ 52.2                  | \$ 47.9  |

### Net Interest Margin

Net interest margin is equal to annualized net interest income divided by the average quarterly total loan balance.

| For the three months ended<br>(\$ millions)     | May 31,<br>2009 | May 31,<br>2008 |
|---|-----------------|-----------------|
| Annualized net interest income                  | \$ 102.8        | \$ 100.4        |
| Divided by average quarterly total loan balance | 4,171.1         | 4,252.4         |
| Net interest margin                             | 2.5%            | 2.4%            |

Management's Discussion and Analysis  
of Financial Condition and Results of Operations

### Efficiency Ratio

The efficiency ratio is a lending industry KPI that measures the efficiency of the organization. We use this ratio to ensure that expenses are in line with revenues. The ratio is calculated from AGF Trust results by dividing non-interest expenses by the total of net interest income and non-interest income.

| (\$ millions)  | Three months ended May 31, |         | Six months ended May 31, |         |
|--|----------------------------|---------|--------------------------|---------|
|  | 2009                       | 2008    | 2009                     | 2008    |
| Selling, general and administrative expenses             | \$ 8.4                     | \$ 10.9 | \$ 17.0                  | \$ 22.2 |
| Add: amortization expense                                | 0.7                        | 0.6     | 1.4                      | 1.0     |
| Non-interest expense                                     | \$ 9.1                     | \$ 11.5 | \$ 18.4                  | \$ 23.2 |
| Other revenue  | \$ 2.0                     | \$ 2.3  | \$ 4.1                   | \$ 6.0  |
| RSP loan securitization income (loss), net of impairment | 0.5                        | (0.7)   | (1.0)                    | 0.1     |
| Non-interest income                                      | \$ 2.5                     | \$ 1.6  | \$ 3.1                   | \$ 6.1  |
| Net interest income                                      | \$ 25.7                    | \$ 25.1 | \$ 52.2                  | \$ 47.9 |
| Add: non-interest income                                 | 2.5                        | 1.6     | 3.1                      | 6.1     |
| Total of net interest income and non-interest income     | \$ 28.2                    | \$ 26.7 | \$ 55.3                  | \$ 54.0 |
| Efficiency ratio   | 32.3%                      | 43.1%   | 33.3%                    | 43.0%   |

### EBITDA Margin

EBITDA margin provides useful information to management and investors as an indicator of AGF Trust's operating performance. We believe EBITDA margin is a valuable measure because it assesses the extent we are able to earn profit from each dollar of revenue. We define EBITDA margin as the ratio of EBITDA to revenue.

| (\$ millions)      | Three months ended May 31, |         | Six months ended May 31, |         |
|--------------------|----------------------------|---------|--------------------------|---------|
|                    | 2009                       | 2008    | 2009                     | 2008    |
| EBITDA             | \$ 4.9                     | \$ 12.4 | \$ 11.9                  | \$ 25.3 |
| Divided by revenue | 28.2                       | 26.7    | 55.3                     | 54.0    |
| EBITDA margin      | 17.4%                      | 46.4%   | 21.5%                    | 46.9%   |

### Pre-Tax Profit Margin

Pre-tax profit margin provides useful information to management and investors as an indicator of AGF Trust's operating performance. We believe pre-tax profit margin is a valuable measure because it assesses the extent we are able to earn profit from each dollar of net interest income. We define pre-tax profit margin as the ratio of income before taxes and non-segmented items to total revenue.

| (\$ millions)                               | Three months ended May 31, |         | Six months ended May 31, |         |
|---|----------------------------|---------|--------------------------|---------|
|   | 2009                       | 2008    | 2009                     | 2008    |
| Income before taxes and non-segmented items | \$ 4.2                     | \$ 11.8 | \$ 10.5                  | \$ 24.3 |
| Divided by revenue                          | 28.2                       | 26.7    | 55.3                     | 54.0    |
| Pre-tax profit margin                       | 14.9%                      | 44.2%   | 19.0%                    | 45.0%   |

### Assets-to-Capital Multiple

Federally regulated deposit-taking institutions (DTI) are expected to meet an assets-to-capital multiple test. The assets-to-capital multiple is determined by dividing the DTI's total assets by its total regulatory capital.

| As at May 31,<br>(\$ millions)                | 2009       | 2008       |
|---|------------|------------|
| Total assets per OSFI guidelines              | \$ 4,992.4 | \$ 5,247.6 |
| Divided by adjusted Tier 1 and Tier 2 capital | 363.2      | 344.5      |
| Assets-to-capital multiple                    | 13.7       | 15.2       |

### Loan-to-Value Ratio

Loan-to-value ratio on our conventional mortgage loans is calculated using outstanding balance of conventional mortgage loans divided by the estimated fair value of the real estate serving as collateral for the conventional mortgage loans as at the date the loans were funded.

| As at May 31,<br>(\$ millions)           | 2009     | 2008     |
|--|----------|----------|
| Conventional mortgage loans <sup>1</sup> | \$ 671.9 | \$ 808.2 |
| Divided by fair value of collateral      | 1,074.1  | 1,277.9  |
| Loan-to-value ratio                      | 62.6%    | 63.2%    |

<sup>1</sup> Includes loan provision and deferred sales commission of \$12.5 million.

## Significant Accounting Policies

A summary of AGF's significant accounting policies can be found in Note 1 of our 2008 audited Consolidated Financial Statements.

### Significant Accounting Estimates

Goodwill and other intangibles are subject to impairment tests on an annual basis or more frequently if events or changes in circumstances indicate that the assets may be impaired. AGF's ongoing review of the valuation of goodwill and other intangibles resulted in a writedown of \$46.3 million in the fourth quarter of 2008. During the three and six months ended May 31, 2009, AGF assessed the need for an impairment test to be performed in light of the current economic climate. It was determined that there is no event or circumstance that has indicated that fair value is lower than carrying value. The annual impairment test will be performed during the third quarter of 2009, consistent with the prior year.

## Changes in Significant Accounting Policies

### Goodwill, Intangible Assets and Financial Statement Concepts

Effective December 1, 2008, the CICA's new accounting standard "Handbook Section 3064, Goodwill and Intangible Assets" was adopted. The standard clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. "Section 1000, Financial Statements Concepts" was also amended to provide consistency with Section 3064. These standards did not have any impact on the financial position or earnings of the Company.

### Credit Risk and Fair Value

Effective December 1, 2008, EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" was adopted. EIC-173 requires the Company's own credit risk and the credit risk of the counterparty to be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Company.

## Future Accounting Changes

### **Conversion to International Financial Reporting Standards in Fiscal 2012**

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that all Canadian publicly-accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. AGF will adopt IFRS for the year beginning December 1, 2011 and will present the interim and annual consolidated financial statements, including comparative prior year financial statements in accordance with IFRS.

AGF is currently assessing the differences between IFRS and GAAP, as well as the alternatives available upon adoption. The impact these differences may have on the financial results has not yet been determined and will be part of an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations.

## Managing Risk

AGF is subject to a number of company and non-company specific risk factors that may impact our operating and financial performance. These risks and the management of those risks are detailed in our 2008 annual MD&A in the section entitled 'Risk Factors and Risk Management'. The Company has not identified any material changes to the risk factors affecting its business or in the management of those risks. Refer to Note 14 of the Consolidated Financial Statements and Notes for risks arising from the use of financial instruments.

## Changes in Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have designed or caused the design of the Internal Controls over Financial Reporting (ICFR) and Disclosure Controls and Procedures. There have been no material weaknesses identified relating to the design of the ICFR and there have been no changes to AGF's internal controls for the quarter ended May 31, 2009 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## Consolidated Operating Results

The table below summarizes our consolidated operating results for the three and six months ended May 31, 2009, and May 31, 2008.

| (\$ millions, except per share amounts) | Three months ended May 31, |          |          | Six months ended May 31, |          |          |
|---|----------------------------|----------|----------|--------------------------|----------|----------|
|   | 2009                       | 2008     | % change | 2009                     | 2008     | % change |
| Revenue                                 |                            |          |          |                          |          |          |
| Investment Management Operations        | \$ 113.0                   | \$ 162.9 | (30.6%)  | \$ 222.9                 | \$ 328.1 | (32.1%)  |
| Trust Company Operations                | 28.2                       | 26.7     | 5.6%     | 55.3                     | 54.0     | 2.4%     |
| Other                                   | 2.3                        | 4.7      | (51.1%)  | 3.3                      | 6.6      | (50.0%)  |
|   | 143.5                      | 194.3    | (26.1%)  | 281.5                    | 388.7    | (27.6%)  |
| Expenses                                |                            |          |          |                          |          |          |
| Investment Management Operations        | 71.2                       | 91.4     | (22.1%)  | 146.3                    | 181.8    | (19.5%)  |
| Trust Company Operations                | 23.3                       | 14.3     | 62.9%    | 43.4                     | 28.7     | 51.2%    |
|   | 94.5                       | 105.7    | (10.6%)  | 189.7                    | 210.5    | (9.9%)   |
| EBITDA <sup>1</sup>                     | 49.0                       | 88.6     | (44.7%)  | 91.8                     | 178.2    | (48.5%)  |
| Amortization                            | 24.3                       | 28.3     | (14.1%)  | 49.2                     | 58.3     | (15.6%)  |
| Interest expense                        | 1.6                        | 2.4      | (33.3%)  | 3.1                      | 5.4      | (42.6%)  |
| Non-controlling interest                | 0.1                        | 0.2      | (50.0%)  | 0.2                      | 0.3      | (33.3%)  |
| Income taxes                            | 5.8                        | 13.7     | (57.7%)  | 9.9                      | 7.5      | 32.0%    |
| Net income                              | \$ 17.2                    | \$ 44.0  | (60.9%)  | \$ 29.4                  | \$ 106.7 | (72.4%)  |
| Earnings per share – diluted            | \$ 0.19                    | \$ 0.49  | (61.2%)  | \$ 0.33                  | \$ 1.19  | (72.3%)  |

<sup>1</sup> For the definition of EBITDA, see the "Key Performance Indicators and Non-GAAP Measures" section. The items required to reconcile EBITDA to net income, a defined term under Canadian GAAP, are detailed above.

Revenue for the three and six months ended May 31, 2009, declined by 26.1% and 27.6% from the corresponding periods in 2008. Revenue in the Investment Management Operations segment declined 30.6% and 32.1% for the three and six months ended May 31, 2009. This corresponds to lower average levels of AUM. The Trust Company Operations segment revenue increased by 5.6% and 2.4% for the three and six months ended May 31, 2009. This was due in part to the increase in net interest margin. Revenue from Other, which represents the results of our 30.3% equity interest in S&WHL, was lower for the three and six months ended May 31, 2009, due to the impact of the economic environment in the U.K.

Expenses for the three and six months ended May 31, 2009, decreased by 10.6% and 9.9% compared with the same periods in 2008. Expenses in the Investment Management Operations segment declined 22.1% and 19.5%, primarily attributable to lower trailing commissions and investment advisory fees as a result of the decline in AUM, as well as lower SG&A related to expense reductions. Trust Operations experienced higher overall expenses related to increased provisions for loan losses partly offset by reduced SG&A expenses. For further details, refer to the segment discussions.

The impact of revenue declining at a faster rate than expenses served to decrease EBITDA by 44.7% and 48.5% for the three and six months ended May 31, 2009, from the corresponding periods of 2008.

Amortization expense decreased 14.1% and 15.6% for the three and six months ended May 31, 2009, compared to the same periods in 2008. The decline was attributable to lower amortization of deferred selling commissions in the Investment Management Operations segment. Amortization of deferred selling commissions for the three and six months ended May 31, 2009 accounted for \$21.1 million and \$43.4 million (2008 – \$24.8 and 50.9 million) of the total amortization expense.

Interest expense was \$1.6 million and \$3.1 million for the three and six months ended May 31, 2009, as compared with \$2.4 and \$5.4 million in the same periods of 2008. Lower interest expense in the quarter is reflective of declining interest rates.

For the three and six months ended May 31, 2009, the income tax expense was \$5.8 million and \$9.9 million as compared with \$13.7 million and \$7.5 million in the same periods in 2008. Results for the six months ended May 31, 2008 included an income tax reduction of \$19.5 million related to the reduction in the federal income tax rate to 15% from 18.5% by January 1, 2012. The effective tax rate for the first six months of 2009 was 25.0% compared with 23.6% in the same period in 2008, excluding the impact of the above \$19.5 million tax reduction in 2008.

The impact of the above revenue and expense items resulted in net income of \$17.2 million and \$29.4 million for the three and six months ended May 31, 2009 compared with \$44.0 million and \$106.7 million in the same periods of 2008. Diluted earnings per share were \$0.19 and \$0.33 for the three and six months ending May 31, 2009, compared with \$0.49 and \$1.19 per share in the same periods of 2008. Excluding the impact of the \$19.5 million tax reduction in the first quarter of 2008, net income in the six months ended May 31, 2008 was \$87.2 million or \$0.97 per share diluted.

A further discussion follows of the results of each business segment for the three and six months ended May 31, 2009, compared with May 31, 2008.

## Business Segment Performance

We report on three business segments: Investment Management Operations, Trust Company Operations and Other. AGF's reportable segments are strategic business units that offer different products and services. The Investment Management Operations segment provides investment management and advisory services. It is responsible for the management and distribution of AGF investment products and services, including retail mutual fund operations, institutional investment management and high-net-worth client investment counselling services. The Trust Company Operations segment offers GICs, real estate secured loans and investment loans. The Other segment includes the results of S&WHL, which is accounted for by the equity method, as well as our interest expense.

## Investment Management Operations

### Business and Industry Profile

Our Investment Management Operations segment provides products and services across the wealth continuum, including mutual funds, wrap products, institutional investment services and high-net-worth investment management. Our products are delivered through multiple channels, including advisors, financial planners, banks, life insurance companies, brokers and consultants.

We compete with numerous domestic and foreign players within the Canadian investment management industry. We believe our status as an independent fund manufacturer without distribution conflict will benefit us and our shareholders as the industry continues to evolve. We also remain focused on building our reputation internationally as an institutional investment management firm and we continue to attract a significant amount of interest in our investment strategies from international investors.

### Segment Strategy and Quarterly Overview

We have remained consistent in our strategy of enhancing the client-centric model in our investment management business and continue to maintain a high level of communication with our clients and strong partnerships with advisors. During the second quarter of 2009, we announced an organizational realignment to better reflect our core focus on investment management. This realignment combines the retail, institutional and high-net-worth businesses under one banner: AGF Investments. While the organizational realignment of resources has occurred, the legal structural change and associated name change to our new "AGF Investments" banner is expected to be completed later in 2009 or early 2010. This realignment supports our commitment to excellence in investment management, relationship management and product management and will allow us to better leverage our investment management competency across all distribution channels. We are focused on growing our institutional business and continue to promote international investment management competency across multiple channels.

Global stock markets staged a rally in the second quarter of 2009, and led to a sequential increase in our mutual fund AUM, although gross mutual fund sales remained weak as investors continued to favour more conservative investment products like GICs and segregated funds. To simplify and improve our retail product offering, better align it with investor preferences and reduce costs, we announced the following changes during the second quarter of 2009:

- The mergers of AGF Global Health Sciences Class and AGF Global Technology Class into AGF Global Equity Class, AGF Global Financial Services Class and AGF Global Perspective Class into AGF Global Value Class, AGF Special U.S. Class and AGF U.S. Value Class into AGF American Growth Class, and AGF Diversified Dividend Income Fund into AGF Monthly High Income Fund and the closures of AGF World Opportunities Fund and AGF Global Balanced High Income Fund.
- The internalization of portfolio management responsibilities of AGF U.S. Risk Managed Class and AGF U.S. Risk Managed Fund and the internalization of portfolio advisory responsibilities of AGF China Focus Class, AGF Japan Class and AGF Japan Fund.
- The removal of the AGF Elements Advantage feature on AGF Elements Products sold subsequent to June 22, 2009.

Management's Discussion and Analysis  
of Financial Condition and Results of Operations

We continually strive to deliver excellence in investment management and in this quarter, AGF was honoured with nine recognitions at the 2009 Canadian Lipper Awards including two coveted group awards. AGF was awarded the Best Overall Fund Family and the Best Mixed Asset Fund Family for having the best overall risk-adjusted performance, relative to its peers in both categories. AGF Canadian Balanced Fund was a triple winner recognized for having the best one-, three- and five-year returns. Four other AGF funds were also recognized for performance.

In May, we opened an office in Boston with a primary focus on business development as we continue to build relationships with sponsors, pension plans and consultants in the institutional space through our sales and marketing efforts.

## Assets Under Management

The primary sources of revenue for AGF's Investment Management Operations segment are management and advisory fees. The amount of management and advisory fees depends on the level and composition of AUM. Under the management and investment advisory contracts between AGF and each of the mutual funds, we are entitled to monthly fees. These fees are based on a specified percentage of the average daily net asset value of the respective fund. In addition, we earn fees on our institutional, strategic accounts and high-net-worth client AUM. As a result, the level of AUM has a significant influence on financial results.

The following table illustrates the composition of the changes in total AUM during the three and six months ended May 31, 2009 and May 31, 2008:

| (\$ millions, except per share amounts)               | Three months ended May 31, |           |          | Six months ended May 31, |           |          |
|---|----------------------------|-----------|----------|--------------------------|-----------|----------|
|   | 2009                       | 2008      | % change | 2009                     | 2008      | % change |
| Mutual fund AUM, beginning of period                  | \$ 18,062                  | \$ 27,703 | (34.8%)  | \$ 19,761                | \$ 30,052 | (34.2%)  |
| Gross sales of mutual funds                           | 694                        | 945       | (26.6%)  | 1,338                    | 2,073     | (35.5%)  |
| Redemptions of mutual funds                           | (819)                      | (1,204)   | (32.0%)  | (1,677)                  | (2,557)   | (34.4%)  |
| Net mutual fund sales                                 | (125)                      | (259)     | (51.7%)  | (339)                    | (484)     | (30.0%)  |
| Market appreciation (depreciation) of fund portfolios | 2,970                      | 1,183     | 151.1%   | 1,485                    | (941)     | n/m      |
| Mutual fund AUM, end of period                        | \$ 20,907                  | \$ 28,627 | (27.0%)  | \$ 20,907                | \$ 28,627 | (27.0%)  |
| Institutional and strategic accounts AUM              | 13,728                     | 19,226    | (28.6%)  | 13,728                   | 19,226    | (28.6%)  |
| High-net-worth AUM                                    | 2,794                      | 3,927     | (28.9%)  | 2,794                    | 3,927     | (28.9%)  |
| Total AUM, end of period                              | \$ 37,429                  | \$ 51,780 | (27.7%)  | \$ 37,429                | \$ 51,780 | (27.7%)  |
| Average daily mutual fund AUM for the period          | \$ 19,652                  | \$ 28,357 | (30.7%)  | \$ 19,404                | \$ 28,489 | (31.9%)  |

Global market declines and an industry trend of reduced gross sales of long-term funds resulted in a decrease in mutual fund AUM to \$20.9 billion at May 31, 2009 from \$28.6 billion as at May 31, 2008. The average daily mutual fund AUM for the six months ended May 31, 2009, decreased 31.9% to \$ 19.4 billion compared with the same period in 2008. Institutional and strategic accounts AUM decreased by \$5.5 billion to \$13.7 billion from \$19.2 billion at May 31, 2008 as a result of market volatility, client rebalancing and redemptions. High-net-worth AUM decreased by \$1.1 billion to \$2.8 billion due to market volatility. These decreases resulted in total AUM decreasing by 27.7% to \$37.4 billion at May 31, 2009.

Market performance influences the level of AUM. During the three and six months ended May 31, 2009, the Canadian-dollar-adjusted S&P 500 Index increased 8.5% and decreased 8.0%, respectively. The Canadian-dollar-adjusted NASDAQ Index increased 11.1% and 2.2%, respectively, for the three and six months ended May 31, 2009, and the S&P/TSX Composite Index increased 28.9% and 14.1%, respectively, for those same time periods. The aggregate market appreciation of our mutual fund portfolios for the six months ended May 31, 2009, divided by the average daily mutual fund AUM for the period, was 7.7% after management fees and expenses paid by the funds.

The impact of the U.S. dollar decrease relative to the Canadian dollar on the market value of AGF mutual funds for the three months ended May 31, 2009 has been a decrease in AUM of \$0.6 billion. For the six months ended May 31, 2009, the impact of the U.S. dollar decrease has been a decrease in AUM of \$0.5 billion.

## Financial and Operational Results

The Investment Management Operations segment results for the three and six months ended May 31, 2009, and May 31, 2008, are as follows:

| (\$ millions)                               | Three months ended May 31, |          |          | Six months ended May 31, |          |          |
|---|----------------------------|----------|----------|--------------------------|----------|----------|
|   | 2009                       | 2008     | % change | 2009                     | 2008     | % change |
| Revenue                                     |                            |          |          |                          |          |          |
| Management and advisory fees                | \$ 105.2                   | \$ 153.9 | (31.6%)  | \$ 207.9                 | \$ 310.3 | (33.0%)  |
| Deferred sales charges                      | 5.6                        | 6.0      | (6.7%)   | 11.6                     | 12.2     | (4.9%)   |
| Investment income and other revenue         | 2.2                        | 3.0      | (26.7%)  | 3.4                      | 5.6      | (39.3%)  |
|   | 113.0                      | 162.9    | (30.6%)  | 222.9                    | 328.1    | (32.1%)  |
| Expenses                                    |                            |          |          |                          |          |          |
| Selling, general and administrative         | 38.7                       | 46.0     | (15.9%)  | 83.2                     | 90.6     | (8.2%)   |
| Trailing commissions                        | 30.0                       | 41.6     | (27.9%)  | 57.5                     | 83.4     | (31.1%)  |
| Investment advisory fees                    | 2.5                        | 3.8      | (34.2%)  | 5.6                      | 7.8      | (28.2%)  |
|   | 71.2                       | 91.4     | (22.1%)  | 146.3                    | 181.8    | (19.5%)  |
| EBITDA <sup>1</sup>                         | 41.8                       | 71.5     | (41.5%)  | 76.6                     | 146.3    | (47.6%)  |
| Amortization                                | 23.5                       | 27.9     | (15.8%)  | 47.7                     | 57.3     | (16.8%)  |
| Income before taxes and non-segmented items | \$ 18.3                    | \$ 43.6  | (58.0%)  | \$ 28.9                  | \$ 89.0  | (67.5%)  |

<sup>1</sup> For the definition of EBITDA, see the "Key Performance Indicators and Non-GAAP Measures" section. The items required to reconcile EBITDA to net income, a defined term under Canadian GAAP, are detailed above.

## Revenue

For the three- and six-month periods ended May 31, 2009, revenue for the Investment Management Operations segment decreased by 30.6% and 32.1% compared with the previous-year periods with changes in the following categories:

### Management and Advisory Fees

The 30.7% decline in average daily mutual fund AUM in the three months ended May 31, 2009, contributed to a 31.6% decrease in management and advisory fee revenue from the same period in 2008.

### Deferred Sales Charges (DSC)

We receive DSC upon redemption of securities sold on the contingent DSC or low-load commission basis for which we finance the selling commissions paid to the dealer. The DSC ranges from 3.0% to 5.5%, depending on the commission option, of the original subscription price of the funds purchased if the funds are redeemed within the first two years, and declines to zero after three or seven years. DSC revenue fluctuates based on the level of redemptions, the age of the assets being redeemed and the proportion of redemptions composed of back-end assets. DSC revenues for the three and six months ended May 31, 2009, decreased by 6.7% and 4.9% from the same periods in 2008, reflecting lower retail mutual fund redemptions of DSC AUM that are subject to a charge.

## Expenses

For the three and six month periods ended May 31, 2009, expenses decreased by 22.1% and 19.5% from the previous-year periods. Changes in specific categories are described in the discussion that follows.

### Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the three and six month periods ended May 31, 2009 were \$38.7 million and \$83.2 million. This represents a 15.9% and 8.2% decrease over the same periods in 2008 and is the result of cost reduction initiatives. The decrease is made up of the following amounts:

| (\$ millions)                                    | Three months ended May 31, |       | Six months ended May 31, |        |
|--|----------------------------|-------|--------------------------|--------|
|  | 2009                       |       | 2009                     |        |
| Increase in fund absorption expenses             | \$                         | -     | \$                       | 2.3    |
| Decrease in compensation-related expenses        |                            | (9.4) |                          | (12.4) |
| Decrease in other expenses                       |                            | (1.5) |                          | (1.6)  |
| Increase in severance and restructuring expenses |                            | 3.6   |                          | 4.3    |
|  | \$                         | (7.3) | \$                       | (7.4)  |

The following explains expense changes in the three- and six-month periods ended May 31, 2009 compared with the previous-year period:

- Absorption expense estimates remained flat quarter over quarter and were up \$2.3 million in the six month period. Lower transactional volumes, improved contractual pricing and removal of the management expense ratio (MER) caps have contributed to our improving absorption expenses.
- Compensation-related expenses decreased due to staff reductions, lower estimates for performance-based payouts and stock-based compensation expense.
- Severance and restructuring expenses increased \$3.6 million and \$4.3 million for the three and six months ended May 31, 2009 as a result of longer-term cost savings initiatives.

### Trailing Commissions

Trailing commissions paid to investment dealers depend on total AUM, the proportion of mutual fund AUM sold on a front-end versus back-end commission basis and the proportion of equity fund AUM versus fixed-income fund AUM. Annualized trailing commissions as a percentage of average daily mutual fund AUM were 0.61% and 0.59% for the three and six months ended May 31, 2009, compared to 0.59% and 0.59% in the same 2008 periods.

### Investment Advisory Fees

External investment advisory fees decreased 34.2% and 28.2% for the three- and six-month periods ended May 31, 2009, compared with the previous-year periods. The year-over-year decrease relates to the reduced level of AUM.

## EBITDA

EBITDA for the Investment Management Operations segment were \$41.8 million and \$76.6 million for the three and six months ended May 31, 2009. This represents a decrease of 41.5% and 47.6% from \$71.5 million and \$146.3 million for the same periods of fiscal 2008. The decrease is directly attributable to lower revenue levels resulting from lower average AUM. EBITDA for the Investment Management Operations increased 20.1% from the first quarter of 2009 due to lower SG&A expenses and higher revenue.

## Amortization

The largest item in this category is amortization of deferred selling commissions. The category also represents amortization of property, equipment, customer contracts and other intangible assets. We internally finance all selling commissions paid. These selling commissions are capitalized and amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule. Amortization expense related to deferred selling commissions was \$21.1 million and \$43.4 million in the three and six months ended May 31, 2009, compared with \$24.8 million and \$50.9 million in the same periods in 2008.

During the second quarter of fiscal 2009, we paid \$15.4 million in selling commissions compared with \$27.9 million in 2008. The decline is due to lower gross sales of retail funds and a slightly higher percentage of funds paid on a front-end basis in 2009 versus 2008. As at May 31, 2009, the unamortized balance of deferred selling commissions stood at \$288.9 million. This is a decrease of \$15.5 million from the balance of \$304.4 million as at November 30, 2008. The contingent DSC that would be received if all of the DSC securities were redeemed at May 31, 2009, were estimated to be approximately \$384.8 million (May 31, 2008 – \$418.7 million).

## Trust Company Operations

### Business and Industry Profile

Through AGF Trust, we offer financial solutions that include GICs, real estate secured loans and investment loans.

AGF Trust investment loans consist of secured investment loans and RSP loans distributed through financial advisors who continue to broaden their suite of products to meet the needs of their clients. AGF Trust has a competitive edge in the advisor channel as we leverage AGF's mutual fund wholesaler relationships. Our mutual fund wholesalers have operated successfully in the advisor channel for many years and our reputation for quality service is widely acknowledged, as demonstrated by our recognition as Advisors' Choice Investment Fund Company of the Year at the 2008 Canadian Investment Awards.

We offer real estate secured loans to Canadians who have sound credit, but whose circumstances may not meet the traditional requirements of Canada's large banks to qualify for their lowest rate real estate secured loan products. Real estate secured loan products are distributed primarily through the mortgage broker channel. Borrowers have chosen to deal with mortgage brokers to take advantage of independent advice and competitive rates. Lenders have provided real estate secured loans in this channel to reduce distribution costs.

### Segment Strategy and Highlights

AGF Trust, similar to other financial institutions in Canada, continues to be impacted by the current recession. Our strategy has been to effectively manage through the current economic downturn and slow loan growth to improve our regulatory capital position. In the latter part of 2008, we repositioned our lending programs to focus on higher margin products and suspended new originations of certain business lines, including our Home Equity Line of Credit (HELOC) and 100% No Margin Investment loan products. During the second quarter of 2009, we continued to focus on responsible management of our loan portfolio and increased our collections capacity and activities in an effort to mitigate default risk and reduce potential losses. The majority of funding for the lending and investment activity continues to be through the sale of GICs and we remain confident in our ability to raise funds through this channel.

For the three and six months ended May 31, 2009, loan originations were \$13.3 million and \$63.5 million, compared to \$452.0 million and \$977.0 million in the same periods in the previous year. Net loan writeoffs were \$10.0 million and \$14.3 million for the three and six months ended May 31, 2009, compared to \$2.0 million and \$3.5 million in the same periods in the previous year. The increase in writeoffs was largely attributable to writeoffs in our RSP, secured investment loan and mortgage loan portfolio. Net loan writeoffs for the three and six months ended May 31, 2009 were \$7.4 million and \$10.0 million, respectively, in our RSP loan portfolio, \$1.1 million and \$2.1 million, respectively, in our secured investment loan portfolio and \$1.5 million and \$2.2 million, respectively, in our mortgage loan portfolio.

As at May 31, 2009, collateral value declines have resulted in approximately \$445.3 million of unsecured exposures in our secured investment loan portfolio compared to \$662.5 million of unsecured exposures as at February 28, 2009. This improvement was directly related to rising equity markets. Our investment loan program is used by independent investment advisors as part of their overall investment strategy for their clients. We believe that the investment advisor is an integral part of their clients' investment strategies. Combined with other mitigating factors such as relatively high credit scores, sound underwriting and historical experience of other financial institutions with this type of product with little evident correlation between collateral values and propensity to default, we expect that clients will continue to service their debt in spite of a decline in equity values. Our weighted average loan-to-value ratio on our conventional mortgage loan portfolio, as at May 31, 2009, was 62.6%.

## Financial and Operational Results

The Trust Company Operations segment results for the three and six months ended May 31, 2009 and May 31, 2008 are as follows:

| (\$ millions)  | Three months ended May 31, |         |          | Six months ended May 31, |          |          |
|--|----------------------------|---------|----------|--------------------------|----------|----------|
|  | 2009                       | 2008    | % change | 2009                     | 2008     | % change |
| Interest income  |                            |         |          |                          |          |          |
| Loan interest  | \$ 53.9                    | \$ 68.7 | (21.5%)  | \$ 114.9                 | \$ 135.2 | (15.0%)  |
| Investment interest                                      | 4.7                        | 7.3     | (35.6%)  | 10.4                     | 17.6     | (40.9%)  |
|  | 58.6                       | 76.0    | (22.9%)  | 125.3                    | 152.8    | (18.0%)  |
| Interest expense   |                            |         |          |                          |          |          |
| Deposit interest   | 46.6                       | 50.2    | (7.2%)   | 94.9                     | 97.4     | (2.6%)   |
| Other interest expense                                   | (13.7)                     | 0.7     | n/m      | (21.8)                   | 7.5      | n/m      |
|  | 32.9                       | 50.9    | (35.4%)  | 73.1                     | 104.9    | (30.3%)  |
| Net interest income                                      | 25.7                       | 25.1    | 2.4%     | 52.2                     | 47.9     | 9.0%     |
| Other revenue  | 2.0                        | 2.3     | (13.0%)  | 4.1                      | 6.0      | (31.7%)  |
| RSP loan securitization income (loss), net of impairment | 0.5                        | (0.7)   | n/m      | (1.0)                    | 0.1      | n/m      |
| Total revenue  | 28.2                       | 26.7    | 5.6%     | 55.3                     | 54.0     | 2.4%     |
| Expenses   |                            |         |          |                          |          |          |
| Selling, general and administrative                      | 8.4                        | 10.9    | (22.9%)  | 17.0                     | 22.2     | (23.4%)  |
| Provision for loan losses                                | 14.9                       | 3.4     | 338.2%   | 26.4                     | 6.5      | 306.2%   |
|  | 23.3                       | 14.3    | 62.9%    | 43.4                     | 28.7     | 51.2%    |
| EBITDA <sup>1</sup>                                      | 4.9                        | 12.4    | (60.5%)  | 11.9                     | 25.3     | (53.0%)  |
| Amortization   | 0.7                        | 0.6     | 16.7%    | 1.4                      | 1.0      | 40.0%    |
| Income before taxes and non-segmented items              | \$ 4.2                     | \$ 11.8 | (64.4%)  | \$ 10.5                  | \$ 24.3  | (56.8%)  |

<sup>1</sup> For the definition of EBITDA, see the "Key Performance Indicators and Non-GAAP Measures" section. The items required to reconcile EBITDA to net income, a defined term under Canadian GAAP, are detailed above.

### Revenue, Net Interest Income and Net Interest Margin

Net interest income, which is expressed net of interest on deposits and other interest expense, increased 2.4% and 9.0% in the three and six months ended May 31, 2009 over the same periods in 2008. The average net interest margin on lending products was 2.5% (2008 – 2.4%). This increase in margin is primarily due to slightly wider margins on lending products, partly offset by higher funding costs on GICs. AGF Trust manages its interest rate risk through the use of interest rate swaps. The average loan balances were approximately 1.9% lower for the three months ended May 31, 2009 compared to 2008. Other interest expense includes \$19.9 million and \$34.1 million of interest income related to changes in fair value on interest rate swaps for the three and six months ended May 31, 2009 (2008 – \$5.2 million and \$4.2 million). Other revenue decreased 13.0% and 31.7% in the three and six months ended May 31, 2009 primarily due to a \$4.6 million and \$3.3 million decrease related to hedge ineffectiveness. During the quarter, the Trust Company recognized a \$0.3 million writedown of its retained interest in securitized RSP loans compared to \$1.5 million in 2008. These factors resulted in an overall revenue increase of 5.6% and 2.4% in the three and six months ended May 31, 2009 as compared with 2008.

### Selling, General and Administrative Expenses

SG&A expenses decreased 22.9% and 23.4% in the three- and six-month periods ended May 31, 2009 over the same period in 2008, primarily due to reduced staffing levels and reduced estimates for performance-based payouts.

### **Provision for Loan Losses**

The total provision for loan losses increased to \$14.9 million during the second quarter of 2009 compared to \$3.4 million in 2008. During the fourth quarter of 2008, AGF Trust reviewed its methodology for allowance for loan losses as a result of the current market and economic conditions. As a result, the methodology was refined to be more responsive to changes in the economy and increases in delinquency. The allowance for specific loan losses was refined to include specific allowances for loans past due but not impaired. Previously, this allowance only included loans identified as impaired. As a result of this change, combined with increases in arrears and impaired loans, the total provision for loan losses increased by \$11.5 million in the second quarter of 2009, compared with the same period in 2008.

Based on our analysis of the RSP portfolio, we had approximately \$25.0 million of loan accounts which, based on certain loan characteristics, were assessed as having a significantly higher risk of default. Accordingly, we have recorded an allowance for loan losses of \$10.5 million against these accounts and in addition, we have written off \$5.8 million of these loans as at May 31, 2009, resulting in an existing net exposure of approximately \$9.0 million.

Loan writeoffs, net of recoveries for the three months ended May 31, 2009 were \$10.0 million compared with \$2.0 million for the three-month period ended May 31, 2008, with the increase attributable to RSP, secured investment loan and mortgage loan writeoffs. Loan writeoffs, net of recoveries, for the three months ended May 31, 2009, were \$7.4 million in the RSP loan portfolio, \$1.1 million in the secured investment loan portfolio and \$1.5 million in the mortgage loan portfolio. Impaired loans expressed as a percentage of loans outstanding were 1.5% as at May 31, 2009, compared with 1.0% at November 30, 2008 and 0.7% at May 31, 2008 due to worsening economic conditions and the fact that, as indicated above, we have identified approximately \$25.0 million of RSP loan accounts which, based on certain characteristics, were assessed as having a significantly higher risk of default. As at May 31, 2009, \$9.1 million of these loans were identified as impaired compared with \$4.4 million at November 30, 2008.

### **EBITDA and EBITDA Margin**

An increase in the loan provision contributed to a decline in EBITDA for the three and six months ended May 31, 2009 of 60.5% and 53.0% to \$4.9 million and \$11.9 million compared to the same periods of 2008. EBITDA margin for the three and six months ended May 31, 2009 declined to 17.4% and 21.5% from 46.4% and 46.9% over the same periods of 2008.

### **Pre-Tax Profit Margin**

As a result of the factors outlined above, pre-tax profit margin of 14.9% in the second quarter 2009 declined from 44.2% in the second quarter of 2008.

## Operational Performance

The table below highlights our key operational measures for the Trust Company Operations segment for the three and six months ended May 31, 2009 and May 31, 2008.

| (\$ millions)  | Three months ended May 31, |                   |                | Six months ended May 31, |                   |                |
|--|----------------------------|-------------------|----------------|--------------------------|-------------------|----------------|
|  | 2009                       | 2008              | % change       | 2009                     | 2008              | % change       |
| Real estate secured loans <sup>1</sup>                   |                            |                   |                |                          |                   |                |
| Insured mortgage loans                                   | \$ 573.2                   | \$ 607.5          | (5.6%)         | \$ 573.2                 | \$ 607.5          | (5.6%)         |
| Conventional mortgage loans                              | 671.9                      | 808.2             | (16.9%)        | 671.9                    | 808.2             | (16.9%)        |
| HELOCs   | 550.8                      | 559.3             | (1.5%)         | 550.8                    | 559.3             | (1.5%)         |
|  | 1,795.9                    | 1,975.0           | (9.1%)         | 1,795.9                  | 1,975.0           | (9.1%)         |
| Investment loans <sup>1</sup>                            |                            |                   |                |                          |                   |                |
| Secured investment loans                                 | 1,768.2                    | 1,683.9           | 5.0%           | 1,768.2                  | 1,683.9           | 5.0%           |
| RSP loans  | 491.1                      | 618.5             | (20.6%)        | 491.1                    | 618.5             | (20.6%)        |
| Other loans  | 7.9                        | 14.8              | (46.6%)        | 7.9                      | 14.8              | (46.6%)        |
|  | 2,267.2                    | 2,317.2           | (2.2%)         | 2,267.2                  | 2,317.2           | (2.2%)         |
| Other assets   | 932.3                      | 964.8             | (3.4%)         | 932.3                    | 964.8             | (3.4%)         |
| <b>Total Assets</b>                                      | <b>\$ 4,995.4</b>          | <b>\$ 5,257.0</b> | <b>(5.0%)</b>  | <b>\$ 4,995.4</b>        | <b>\$ 5,257.0</b> | <b>(5.0%)</b>  |
| Net interest income                                      | \$ 25.7                    | \$ 25.1           | 2.4%           | \$ 52.2                  | \$ 47.9           | 9.0%           |
| RSP loan securitization income (loss), net of impairment | 0.5                        | (0.7)             | n/m            | (1.0)                    | 0.1               | n/m            |
| Other revenue  | 2.0                        | 2.3               | (13.0%)        | 4.1                      | 6.0               | (31.7%)        |
| Non-interest expenses <sup>2</sup>                       | (9.1)                      | (11.5)            | (20.9%)        | (18.4)                   | (23.2)            | (20.7%)        |
| Provision for loan losses                                | (14.9)                     | (3.4)             | n/m            | (26.4)                   | (6.5)             | n/m            |
| <b>Income before taxes and non-segmented items</b>       | <b>\$ 4.2</b>              | <b>\$ 11.8</b>    | <b>(64.4%)</b> | <b>\$ 10.5</b>           | <b>\$ 24.3</b>    | <b>(56.8%)</b> |
| Efficiency ratio <sup>3</sup>                            | 32.3%                      | 43.1%             |                | 33.3%                    | 43.0%             |                |
| Assets-to-capital multiple <sup>3</sup>                  | 13.7                       | 15.2              |                | 13.7                     | 15.2              |                |

<sup>1</sup> Includes loan provision and deferred sales commission.

<sup>2</sup> Includes SG&A and amortization expenses.

<sup>3</sup> For the definition of efficiency ratio and assets-to-capital multiple, see the "Key Performance Indicators and Non-GAAP Measures" section.

### Loan Asset Growth

Loan originations decreased significantly from the second quarter of 2008 as a result of amendments to our lending programs. Real estate secured loan assets decreased by 9.1% year-over-year. Secured investment loans increased 5.0% to \$1.8 billion as at May 31, 2009, over the same period in 2008 while RSP loan balances and other loans decreased \$134.3 million or 21.2%.

### Efficiency Ratio

The efficiency ratio is defined as non-interest expenses divided by the total of net interest income and non-interest income. It is a key industry performance indicator used to ensure expenses are contained as the Trust business grows. In the second quarter of 2009, the efficiency ratio experienced a favourable change to 32.3% from 43.1% in the same period of 2008. The efficiency ratio for the six-month period ended May 31, 2009, decreased to 33.3% from 43.0% in the same period of 2008.

### Balance Sheet

Total assets decreased 5.0% to \$5.0 billion as at May 31, 2009, compared with the previous year. As at May 31, 2009, our assets-to-capital multiple stood at 13.7 times, compared with 15.2 times at the same time last year. Our risk-based capital ratio was 16.5% as at May 31, 2009 compared to 14.7% at November 30, 2008. During the six-month period ended May 31, 2008, AGF Trust received \$35.0 million in debt and equity capital from AGF Management Limited to support increased asset levels. AGF Trust has not required capital from AGF Management since the first quarter of 2008. Liquid assets were high with \$768.7 million in cash and cash equivalents as well as investments available for sale as at May 31, 2009 (2008 – \$879.2 million).

### Loan Portfolio Credit

The credit risk factors considered when assessing the collectability of the various loan portfolios are primarily based on the individuals' ability and willingness to make future loan payments, coupled with the underlying collateral security held for each of the loan categories. The key risk factors considered include:

- Employment rates: higher unemployment rates will likely result in higher default rates as individuals' ability to pay deteriorates.
- Residential property prices and sales volume: declining residential property prices and reduced volumes of residential property sales may result in lower resale prices and longer disposal times, therefore, increasing losses incurred on the disposition of the property.
- Equity market performance: declining global equity markets present increased risk on the secured investment loan portfolio as the value of the underlying collateral is lower. While Trust has recourse to the personal assets of clients with respect to investment loans, the global macro-economic situation and employment levels may impede Trust's ability to realize on the full value of the loan.

The general allowance for real estate secured loan losses remained consistent year over year at \$8.8 million as compared to \$9.0 million a year ago. The general allowance for investment loan losses increased to \$17.3 million from \$9.1 million in the 2008 quarter, due to a refinement in provisioning methodology combined with higher experience of loan writeoffs.

Approximately 45.5% of real estate secured loan assets, excluding HELOCs, are insured. We have security for non-RSP investment loans, consisting of mutual funds and other investments. The value of this collateral fluctuates with the changes in the underlying investments. The amount of RSP loans written off, net of recoveries (excluding securitized RSP loans) was \$10.0 million for the six months ended May 31, 2009 (2008 – \$1.8 million). For the balance of our loan products, the amount written off net of recoveries was \$4.3 million (2008 – \$1.7 million).

### Liquidity and Capital Resources

For the three and six months ended May 31, 2009, consolidated cash flow generated from continuing operating activities, before net change in non-cash balances related to operations, was \$44.7 million and \$91.4 million compared to \$71.5 million and \$154.9 million in the prior year.

During the three- and six-month period ended May 31, 2009, we paid \$15.4 million and \$27.9 million in selling commissions, which were capitalized and amortized for accounting purposes, compared with \$27.9 million and \$54.7 million in 2008. Accordingly, our free cash flow (defined as cash flow from continuing operations less selling commissions paid) was \$29.3 million and \$63.5 million for the three and six months ended May 31, 2009, compared with \$43.6 million and \$100.2 million in the prior year.

Our free cash flow was used primarily to fund the following:

| (\$ millions)  | Three months ended May 31, |          | Six months ended May 31, |         |
|--|----------------------------|----------|--------------------------|---------|
|  | 2009                       | 2008     | 2009                     | 2008    |
| Payment of dividends   | \$ 21.4                    | \$ 19.7  | \$ 43.0                  | \$ 37.0 |
| Acquisitions of subsidiaries                                 | 19.9                       | –        | 19.9                     | 20.8    |
| Purchase of property, equipment and other intangible assets  | 0.3                        | 1.2      | 1.0                      | 2.7     |
| Investments <sup>1</sup>                                     | 0.3                        | (3.4)    | 3.8                      | 1.3     |
| Bank credit facility repayment (borrowing)                   | (16.8)                     | 87.1     | (70.9)                   | (12.1)  |
| Investment in Trust Operations (eliminated on consolidation) | –                          | –        | –                        | 35.0    |
|  | \$ 25.1                    | \$ 104.6 | \$ (3.2)                 | \$ 84.7 |

<sup>1</sup> Excludes \$264.3 million and \$274.2 million of cash invested by AGF Trust into investments available for sale during the three and six months ended May 31, 2009 (2008 – \$25.0 million and \$140.0 million).

During the three months ended May 31, 2009, our revolving term loan balance increased \$16.8 million to \$194.7 million (2008 – decreased \$87.1 million) due to the final payment related to the Highstreet acquisition.

Consolidated cash and cash equivalents of \$348.0 million decreased by \$236.2 million from November 30, 2008 levels of \$584.2 million (2008 – decreased by \$79.4 million) primarily due to an increase in investments available for sale held by AGF Trust of \$274.2 million.

We have a six-year prime-rate-based revolving term loan facility to a maximum of \$300.0 million, of which \$99.9 million was available to be drawn as at May 31, 2009. Aside from cash held in the Trust Company Operations segment, which is held to fund loans to clients and GIC maturities, AGF had \$24.6 million of cash as at May 31, 2009 (May 31, 2008 – \$40.7 million). The loan facility will be available to meet future operational and investment needs. We anticipate that cash flow from operations, together with the available loan facility, will be sufficient in the foreseeable future to implement our business plan, finance selling commissions, satisfy regulatory requirements, service debt repayment obligations, meet capital spending needs and pay quarterly dividends.

## Capital Management Activities

We actively manage our capital to maintain a strong and efficient capital base to maximize risk-adjusted returns to shareholders, invest in future growth opportunities, including acquisitions, and to ensure that the regulatory capital requirements are met for each of our subsidiary companies. AGF's management of its capital and its capital requirements are detailed in the section entitled 'Capital Management Activities' in the Company's Annual MD&A as at November 30, 2008. There have been no material changes to the management of capital or required regulatory amounts. Refer to Note 13 of the Q2 2009 Financial Statements for details of capital measures at AGF Trust.

### Normal Course Issuer Bid

In February 2009, the Company's Board of Directors authorized the renewal of AGF's normal course issuer bid for the purchase of up to 7,108,630 Class B shares, or 10% of the public float for such shares. The Company received approval from the Toronto Stock Exchange on February 24, 2009, for the renewal of its normal course issuer bid. This allows AGF to purchase up to 7,108,630 Class B shares through the facilities of the Toronto Stock Exchange (or as otherwise permitted by the Toronto Stock Exchange) between February 26, 2009 and February 25, 2010. The Class B shares may be repurchased from time to time at prevailing market prices or such other price as may be permitted by the Toronto Stock Exchange.

As at May 31, 2009, under this current normal course issuer bid, no Class B shares have been repurchased. AGF's previous normal course issuer bid allowed for the repurchase of up to 7,253,822 Class B shares between February 26, 2008, and February 25, 2009, at prevailing market prices. Under the previous normal course issuer bid, AGF purchased an aggregate of 1,000,000 Class B shares, for a total consideration of \$7.8 million at an average price of \$7.79 per share.

## Dividends

For the three months ended May 31, 2009, we declared a 25-cents-per-share dividend on Class A and Class B shares. This dividend will be payable on July 20, 2009, to shareholders of record on July 9, 2009.

The holders of Class B shares are entitled to receive cash dividends. Dividends are paid in equal amounts per share on all Class B and Class A shares at the time outstanding, without preference or priority of one share over another. No dividends may be declared if there is a default of a condition of our loan facility or where such payment of dividends would create a default.

Our Board of Directors may determine that Class B shareholders shall have the right to elect to receive part or all of such dividend in the form of a stock dividend. They also determine whether a dividend in Class B shares is substantially equal to a cash dividend. This determination is based on the weighted average price at which the Class B shares traded on the Toronto Stock Exchange during the 10 trading days immediately preceding the record date applicable to such dividend.

Management's Discussion and Analysis  
of Financial Condition and Results of Operations

The following table sets forth the dividends paid by AGF on Class B and Class A shares for the period indicated:

| Years ended November 30 | 2009*    | 2008     | 2007     | 2006     | 2005     |
|-------------------------|----------|----------|----------|----------|----------|
| Per share               | \$ 0.750 | \$ 0.950 | \$ 0.780 | \$ 0.690 | \$ 0.560 |
| Percentage increase     | NA       | 22%      | 13%      | 23%      | 37%      |

\* The total of dividends paid in January and April 2009 and to be paid in July 2009.

We review our dividend distribution policy on a quarterly basis, taking into account our financial position, profitability, cash flow and other factors considered relevant by our Board of Directors.

## Outstanding Share Data

Set out below is our outstanding share data as at May 31, 2009 and May 31, 2008. For additional details, see Note 9 of the Q2 2009 Consolidated Financial Statements.

| As at May 31,                | 2009       | 2008       |
|------------------------------|------------|------------|
| <b>Shares</b>                |            |            |
| Class A voting common shares | 57,600     | 57,600     |
| Class B non-voting shares    | 88,822,218 | 89,372,650 |
| <b>Stock Options</b>         |            |            |
| Outstanding options          | 6,089,149  | 4,053,698  |
| Exercisable options          | 2,383,233  | 2,095,942  |

During the three and six months ended May 31, 2009, 94,143 and 153,670 Class B shares were issued through the dividend reinvestment plan.

## Selected Quarterly Information

| (\$ millions, except per share amounts)<br>For the three-month period ended | May 31,<br>2009 | Feb 28,<br>2009 | Nov. 30,<br>2008 | Aug. 31,<br>2008 |
|---|-----------------|-----------------|------------------|------------------|
| Revenue (continuing operations)   | \$ 143.5        | \$ 138.0        | \$ 152.2         | \$ 184.7         |
| Cash flow from continuing operations <sup>1</sup>                           | 44.7            | 46.7            | 57.5             | 66.2             |
| EBITDA (continuing operations) <sup>2</sup>                                 | 49.0            | 42.8            | 54.0             | 81.5             |
| Pre-tax income (continuing operations)                                      | 23.0            | 16.3            | (24.1)           | 51.3             |
| Net income  | 17.2            | 12.2            | (19.3)           | 41.1             |
| Earnings per share  |                 |                 |                  |                  |
| Basic   | \$ 0.19         | \$ 0.14         | \$ (0.21)        | \$ 0.46          |
| Diluted   | \$ 0.19         | \$ 0.14         | \$ (0.21)        | \$ 0.46          |
| Weighted average basic shares   | 88,826,605      | 88,564,160      | 89,446,562       | 89,451,578       |
| Weighted average fully diluted shares                                       | 89,234,015      | 88,564,160      | 90,679,048       | 89,870,475       |

| (\$ millions, except per share amounts)<br>For the three-month period ended | May 31,<br>2008 | Feb. 29,<br>2008 | Nov. 30,<br>2007 | Aug. 31,<br>2007 |
|---|-----------------|------------------|------------------|------------------|
| Revenue (continuing operations)   | \$ 194.3        | \$ 194.3         | \$ 199.1         | \$ 199.2         |
| Cash flow from operations <sup>1</sup>                                      | 71.5            | 83.5             | 90.7             | 69.7             |
| EBITDA (continuing operations) <sup>2</sup>                                 | 88.6            | 89.5             | 87.5             | 91.3             |
| Pre-tax income (continuing operations)                                      | 57.9            | 56.6             | 53.9             | 57.3             |
| Net income  | 44.0            | 62.7             | 49.4             | 39.4             |
| Earnings per share  |                 |                  |                  |                  |
| Basic   | \$ 0.49         | \$ 0.70          | \$ 0.55          | \$ 0.44          |
| Diluted   | \$ 0.49         | \$ 0.70          | \$ 0.54          | \$ 0.43          |
| Weighted average basic shares   | 89,349,275      | 89,039,394       | 90,200,924       | 90,299,033       |
| Weighted average fully diluted shares                                       | 89,785,796      | 89,807,506       | 91,566,659       | 91,847,103       |

<sup>1</sup> Cash flow from operations before net change in non-cash balances related to operations.

<sup>2</sup> For the definition of EBITDA, see the "Key Performance Indicators and Non-GAAP Measures" section.

## Additional Information

Additional information relating to the Company can be found in our Consolidated Financial Statements and accompanying Notes for the three and six months ended May 31, 2009, our 2008 annual MD&A and Consolidated Financial Statements, our 2008 Annual Information Form (AIF) and other documents filed with applicable securities regulators in Canada. They may be accessed at [www.sedar.com](http://www.sedar.com).

AGF Management Limited  
Consolidated Balance Sheet

| As at  | May 31,<br>2009     | November 30,<br>2008 |
|--|---------------------|----------------------|
| (\$ thousands)   | (unaudited)         | (audited)            |
| <b>Assets</b>  |                     |                      |
| Current Assets   |                     |                      |
| Cash and cash equivalents  | \$ 348,010          | \$ 584,168           |
| Investments available for sale (note 2(a))                                 | 470,715             | 188,435              |
| Accounts receivable, prepaid expenses and other assets                     | 93,723              | 78,403               |
| Current portion of retained interest from securitization (note 3)          | 2,868               | 5,487                |
| Real estate secured and investment loans due within one year (note 5)      | 569,349             | 606,844              |
|  | 1,484,665           | 1,463,337            |
| Retained interest from securitization (note 3)                             | 39,384              | 39,460               |
| Real estate secured and investment loans (note 5)                          | 3,493,670           | 3,824,006            |
| Investment in associated company (note 2(b))                               | 93,872              | 98,338               |
| Management contracts   | 504,269             | 504,269              |
| Customer contracts, net of accumulated amortization                        | 16,747              | 18,783               |
| Goodwill   | 172,985             | 172,985              |
| Trademarks   | 1,935               | 1,935                |
| Deferred selling commissions, net of accumulated amortization              | 288,860             | 304,406              |
| Property, equipment and computer software, net of accumulated amortization | 16,714              | 19,423               |
| Other assets (note 6)  | 63,577              | 87,017               |
| <b>Total assets</b>  | <b>\$ 6,176,678</b> | <b>\$ 6,533,959</b>  |
| <b>Liabilities and shareholders' equity</b>                                |                     |                      |
| Current Liabilities  |                     |                      |
| Accounts payable and accrued liabilities                                   | \$ 268,060          | \$ 306,834           |
| Future income taxes  | 24,196              | 26,240               |
| Long-term debt due within one year (note 7)                                | -                   | 21,171               |
| Deposits due within one year (note 5(f))                                   | 2,379,719           | 2,486,635            |
|  | 2,671,975           | 2,840,880            |
| Deposits (note 5(f))   | 2,044,268           | 2,275,426            |
| Long-term debt (note 7)  | 194,654             | 123,740              |
| Future income taxes  | 161,926             | 171,293              |
| Other long-term liabilities (note 8)                                       | 8,869               | 14,995               |
| <b>Total liabilities</b>   | <b>5,081,692</b>    | <b>5,426,334</b>     |
| Non-controlling interest   | 402                 | 203                  |
| Shareholders' equity   |                     |                      |
| Capital stock (note 9)   | 434,814             | 431,897              |
| Contributed surplus  | 18,803              | 17,127               |
| Retained earnings  | 661,267             | 676,190              |
| Accumulated other comprehensive income                                     | (20,300)            | (17,792)             |
| <b>Total shareholders' equity</b>  | <b>1,094,584</b>    | <b>1,107,422</b>     |
| <b>Total liabilities and shareholders' equity</b>                          | <b>\$ 6,176,678</b> | <b>\$ 6,533,959</b>  |

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statement of Income

| (\$ thousands)<br>(unaudited)                                     | Three months ended May 31, |                | Six months ended May 31, |                |
|---|----------------------------|----------------|--------------------------|----------------|
|   | 2009                       | 2008           | 2009                     | 2008           |
| <b>Revenue</b>  |                            |                |                          |                |
| Management and advisory fees                                      | \$ 105,242                 | \$ 153,957     | \$ 207,895               | \$ 310,374     |
| Deferred sales charges  | 5,533                      | 6,047          | 11,582                   | 12,222         |
| RSP loan securitization income (loss), net of impairment (note 3) | 560                        | (672)          | (981)                    | 87             |
| Investment income and other revenue                               | 6,516                      | 9,941          | 10,809                   | 18,140         |
|   | 117,851                    | 169,273        | 229,305                  | 340,823        |
| AGF Trust interest income (note 11)                               | 58,580                     | 76,003         | 125,319                  | 152,755        |
| AGF Trust interest expense (note 11)                              | (32,903)                   | (50,935)       | (73,129)                 | (104,891)      |
| Trust Company net interest income                                 | 25,677                     | 25,068         | 52,190                   | 47,864         |
| <b>Total Revenue</b>  | <b>143,528</b>             | <b>194,341</b> | <b>281,495</b>           | <b>388,687</b> |
| <b>Expenses</b>   |                            |                |                          |                |
| Selling, general and administrative                               | 47,288                     | 56,814         | 100,327                  | 112,773        |
| Trailing commissions  | 29,907                     | 41,609         | 57,453                   | 83,445         |
| Investment advisory fees  | 2,460                      | 3,846          | 5,600                    | 7,797          |
| Amortization of deferred selling commissions                      | 21,076                     | 24,799         | 43,365                   | 50,853         |
| Amortization of customer contracts                                | 1,263                      | 1,817          | 2,036                    | 3,969          |
| Amortization of property, equipment and computer software         | 1,891                      | 1,832          | 3,753                    | 3,493          |
| Interest expense  | 1,571                      | 2,374          | 3,131                    | 5,396          |
| Provision for AGF Trust loan losses (note 5(e))                   | 14,885                     | 3,399          | 26,353                   | 6,461          |
|   | 120,341                    | 136,490        | 242,018                  | 274,187        |
| Income before income taxes and non-controlling interest           | 23,187                     | 57,851         | 39,477                   | 114,500        |
| Income tax expense (reduction) (note 12)                          |                            |                |                          |                |
| Current   | 14,484                     | 12,362         | 21,081                   | 24,468         |
| Future  | (8,687)                    | 1,291          | (11,212)                 | (16,970)       |
|   | 5,797                      | 13,653         | 9,869                    | 7,498          |
| Non-controlling interest (note 4)                                 | 134                        | 151            | 200                      | 296            |
| Net income for the period   | \$ 17,256                  | \$ 44,047      | \$ 29,408                | \$ 106,706     |
| Earnings per share (note 9(g))                                    |                            |                |                          |                |
| Basic   | \$ 0.19                    | \$ 0.49        | \$ 0.33                  | \$ 1.20        |
| Diluted   | \$ 0.19                    | \$ 0.49        | \$ 0.33                  | \$ 1.19        |

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statement of Changes in Shareholders' Equity

| (\$ thousands)<br>(unaudited)  | Three months ended May 31, |                     | Six months ended May 31, |                     |
|--|----------------------------|---------------------|--------------------------|---------------------|
|  | 2009                       | 2008                | 2009                     | 2008                |
| <b>Common shares</b>   |                            |                     |                          |                     |
| Balance, beginning of period   | \$ 432,478                 | \$ 431,393          | \$ 431,897               | \$ 421,923          |
| Issued through dividend reinvestment plan  | 800                        | 2,637               | 1,381                    | 3,170               |
| Stock options exercised  | –                          | 591                 | –                        | 4,412               |
| Issued on acquisition of Highstreet Partners Limited (note 4)                      | 1,536                      | –                   | 1,536                    | 5,116               |
| Balance, end of period   | 434,814                    | 434,621             | 434,814                  | 434,621             |
| <b>Contributed surplus</b>   |                            |                     |                          |                     |
| Balance, beginning of period   | 17,978                     | 13,818              | 17,127                   | 14,948              |
| Stock options  | 825                        | 1,144               | 1,676                    | 14                  |
| Balance, end of period   | 18,803                     | 14,962              | 18,803                   | 14,962              |
| <b>Retained earnings</b>   |                            |                     |                          |                     |
| Balance, beginning of period   | 666,208                    | 680,222             | 676,190                  | 635,369             |
| Net income for the period  | 17,256                     | 44,047              | 29,408                   | 106,706             |
| Dividends on AGF Class A voting common shares and<br>AGF Class B non-voting shares | (22,197)                   | (22,322)            | (44,331)                 | (40,128)            |
| Balance, end of period   | 661,267                    | 701,947             | 661,267                  | 701,947             |
| <b>Accumulated other comprehensive income (loss)</b>                               |                            |                     |                          |                     |
| Balance, beginning of period   | (22,657)                   | (10,621)            | (17,792)                 | (3,238)             |
| Other comprehensive income (loss)  | 2,357                      | 177                 | (2,508)                  | (7,206)             |
| Balance, end of period   | (20,300)                   | (10,444)            | (20,300)                 | (10,444)            |
| <b>Total shareholders' equity</b>  | <b>\$ 1,094,584</b>        | <b>\$ 1,141,086</b> | <b>\$ 1,094,584</b>      | <b>\$ 1,141,086</b> |

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statement of Comprehensive Income

| (\$ thousands)<br>(unaudited)  | Three months ended May 31, |           | Six months ended May 31, |            |
|--|----------------------------|-----------|--------------------------|------------|
|  | 2009                       | 2008      | 2009                     | 2008       |
| <b>Net income</b>  | \$ 17,256                  | \$ 44,047 | \$ 29,408                | \$ 106,706 |
| <b>Other comprehensive income (losses), net of tax</b>   |                            |           |                          |            |
| Foreign currency translation adjustments related to net investments in self-sustaining foreign operations <sup>1</sup> | (1,935)                    | 875       | (5,642)                  | (3,976)    |
|  | (1,935)                    | 875       | (5,642)                  | (3,976)    |
| <b>Net unrealized gains (losses) on available for sale securities</b>  |                            |           |                          |            |
| Unrealized gains (losses) <sup>2</sup>   | 4,118                      | (721)     | 2,660                    | (2,164)    |
| Reclassification of realized loss or other than temporary impairment to earnings                                       | 116                        | (77)      | 350                      | (77)       |
|  | 4,234                      | (798)     | 3,010                    | (2,241)    |
| <b>Net unrealized gains (losses) on cash flow hedges</b>   |                            |           |                          |            |
| Unrealized gains (losses) <sup>3</sup>   | -                          | (148)     | -                        | (1,237)    |
| Reclassification of realized gain on cash flow hedges  | 58                         | 248       | 124                      | 248        |
|  | 58                         | 100       | 124                      | (989)      |
| Total other comprehensive income (loss), net of tax  | \$ 2,357                   | \$ 177    | \$ (2,508)               | \$ (7,206) |
| <b>Comprehensive income</b>  | \$ 19,613                  | \$ 44,224 | \$ 26,900                | \$ 99,500  |

<sup>1</sup> Net of income tax reduction of \$0.4 million and \$1.0 million for the three and six months ended May 31, 2009. Net of income tax expense of \$0.1 million and net of income tax reduction of \$0.7 million for the three and six months ended May 31, 2008.

<sup>2</sup> Net of income tax expense of \$1.6 million and \$0.6 million for the three and six months ended May 31, 2009. Net of income tax reduction of \$0.3 million and \$0.5 million for the three and six months ended May 31, 2008.

<sup>3</sup> Net of income tax reduction of \$0.1 million and \$0.6 million for the three and six months ended May 31, 2008.

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statements of Cash Flow

| (\$ thousands)<br>(unaudited)   | Three months ended May 31, |            | Six months ended May 31, |            |
|---|----------------------------|------------|--------------------------|------------|
|   | 2009                       | 2008       | 2009                     | 2008       |
| <b>Operating Activities</b>   |                            |            |                          |            |
| Net income for the period   | \$ 17,256                  | \$ 44,047  | \$ 29,408                | \$ 106,706 |
| Items not affecting cash  |                            |            |                          |            |
| Amortization  | 24,230                     | 28,448     | 49,154                   | 58,315     |
| Future income taxes   | (8,687)                    | 1,291      | (11,212)                 | (16,970)   |
| RSP loan securitization income (loss), net of impairment                      | (560)                      | 672        | 981                      | (87)       |
| Provision for AGF Trust loan losses   | 14,885                     | 3,399      | 26,353                   | 6,461      |
| Stock-based compensation  | 1,495                      | 2,100      | 2,806                    | 4,459      |
| Equity investment in S&WHL  | (2,261)                    | (4,797)    | (3,259)                  | (6,605)    |
| Dividends from S&WHL  | —                          | —          | 1,031                    | 1,116      |
| Other   | (1,629)                    | (3,669)    | (3,819)                  | 1,564      |
|   | 44,729                     | 71,491     | 91,443                   | 154,959    |
| Net change in non-cash balances related to operations (note 10)               | 7,316                      | 103,383    | (33,417)                 | 32,078     |
| Net cash provided by operating activities                                     | 52,045                     | 174,874    | 58,026                   | 187,037    |
| <b>Financing Activities</b>   |                            |            |                          |            |
| Issue of Class B non-voting shares  | —                          | 492        | —                        | 1,902      |
| Dividends   | (21,397)                   | (19,685)   | (42,950)                 | (36,958)   |
| Increase in bank loan   | 16,838                     | (87,139)   | 70,914                   | 12,076     |
| Net increase (decrease) in AGF Trust deposits                                 | (290,118)                  | 324,594    | (333,952)                | 594,123    |
| Net cash provided by (used in) financing activities                           | (294,677)                  | 218,262    | (305,988)                | 571,143    |
| <b>Investing Activities</b>   |                            |            |                          |            |
| Deferred selling commissions paid   | (15,387)                   | (27,902)   | (27,905)                 | (54,668)   |
| Proceeds from sale of discontinued operations                                 | 702                        | —          | 702                      | —          |
| Acquisition of subsidiaries, net of cash acquired                             | (19,924)                   | —          | (19,924)                 | (20,784)   |
| Purchase of property, equipment and computer software                         | (334)                      | (1,202)    | (1,044)                  | (2,743)    |
| Purchase of investments available for sale                                    | (264,594)                  | (21,597)   | (278,041)                | (141,282)  |
| Net (decrease) increase in AGF Trust real estate secured and investment loans | 247,224                    | (284,316)  | 338,016                  | (618,086)  |
| Net cash provided by (used in) investing activities                           | (52,313)                   | (335,017)  | 11,804                   | (837,563)  |
| <b>Increase (decrease) in cash and cash equivalents</b>                       | (294,945)                  | 58,119     | (236,158)                | (79,383)   |
| <b>Balance of cash and cash equivalents, beginning of period</b>              | 642,955                    | 690,372    | 584,168                  | 827,874    |
| <b>Balance of cash and cash equivalents, end of period</b>                    | \$ 348,010                 | \$ 748,491 | \$ 348,010               | \$ 748,491 |
| <b>Represented by:</b>  |                            |            |                          |            |
| Cash and cash equivalents   |                            |            | \$ 24,558                | \$ 40,726  |
| AGF Trust cash and cash equivalents   |                            |            | 323,452                  | 707,765    |
|   |                            |            | \$ 348,010               | \$ 748,491 |

Refer to Note 10 for supplemental cash flow information.

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

# Notes to Consolidated Financial Statements

For the three and six months ended May 31, 2009 (tabular amounts in thousands of dollars, except per share amounts) (unaudited)

These unaudited Q2 2009 Consolidated Financial Statements of AGF Management Limited (AGF or the Company) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), using the same significant accounting policies as AGF's Consolidated Financial Statements for the year ended November 30, 2008. These financial statements do not contain all the disclosures required by Canadian GAAP for annual financial statements and should be read in conjunction with the Consolidated Financial Statements for the year ended November 30, 2008. Certain comparative amounts in these financial statements have been reclassified to conform to the current year's presentation.

## **Note 1: Changes in Accounting Policy**

### **Goodwill, Intangible Assets and Financial Statement Concepts**

Effective December 1, 2008, the CICA's new accounting standard "Handbook Section 3064, Goodwill and Intangible Assets" was adopted. The standard clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. "Section 1000, Financial Statements Concepts" was also amended to provide consistency with Section 3064. These standards did not have any impact on the financial position or earnings of the Company.

### **Credit Risk and Fair Value**

Effective December 1, 2008, EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" was adopted. EIC-173 requires the Company's own credit risk and the credit risk of the counterparty to be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Company.

## **Future Accounting Changes**

### **Conversion to International Financial Reporting Standards in Fiscal 2012**

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that all Canadian publicly-accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. AGF will adopt IFRS for the year beginning December 1, 2011 and will present the interim and annual consolidated financial statements including comparative prior year financial statements in accordance with IFRS.

AGF is currently assessing the differences between IFRS and GAAP, as well as the alternatives available upon adoption. The impact these differences may have on the financial results has not yet been determined and will be an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations.

**Note 2: Investments Available for Sale and Investment in S&WHL**

(a) The following table presents a breakdown of available for sale investments, excluding retained interest from securitization:

| (\$ thousands)                        | May 31,<br>2009 | November 30,<br>2008 |
|---------------------------------------|-----------------|----------------------|
| Trust:                                |                 |                      |
| Canadian government debt <sup>1</sup> |                 |                      |
| Federal                               | \$ 10,258       | \$ 10,233            |
| Provincial                            | 239,255         | 45,767               |
| Deposits with regulated institutions  | 85,629          | 83,498               |
| Other securities                      | 110,068         | 28,992               |
|                                       | 445,210         | 168,490              |
| Investment Management:                |                 |                      |
| Canadian government debt              |                 |                      |
| Federal                               | 296             | 294                  |
| AGF mutual funds and other            | 19,418          | 15,013               |
| Equity securities                     | 5,791           | 4,638                |
|                                       | 25,505          | 19,945               |
|                                       | \$ 470,715      | \$ 188,435           |

<sup>1</sup> Includes investments issued and/or guaranteed by the Canadian government

(b) The Company holds a 30.3% investment in S&WHL accounted for using the equity method. At May 31, 2009, the carrying value was \$93.9 million (November 30, 2008 – \$98.3 million). During the three and six months ended May 31, 2009, the Company recognized \$2.3 million and \$3.3 million (2008 – \$4.8 million and \$6.6 million) in revenue from S&WHL. During the first quarter of 2009, the Company received \$1.0 million in dividends (2008 – \$1.1 million) from S&WHL. No dividends were received from S&WHL during the second quarter of 2009.

**Note 3: Securitization of AGF Trust Loans**

On March 30, 2007, AGF Trust securitized \$263.6 million of RSP loans. Cash flows of \$252.9 million were received on the securitization and a gain of \$8.0 million was recorded, net of transaction fees of \$0.1 million. As at May 31, 2009, \$133.6 million (November 30, 2008 – \$166.6 million) of securitized loans were outstanding.

When RSP loan receivables are sold in securitization to a securitization trust under terms that transfer control to third parties, the transaction is recognized as a sale and the related loan assets are removed from the Consolidated Balance Sheet. As part of the securitization, certain financial assets are retained. The retained interests are carried at fair value and are determined using the present value of future expected cash flows. A gain or loss on the sale of loan receivables is recognized immediately in income. The amount of the gain or loss is determined by estimating the fair value of future expected cash flows using management's best estimates of key assumptions: excess spread, discount rate on the interest-only strip, expected credit losses, prepayment rates and the expected weighted average life of RSP loans that are commensurate with the risks involved. The current fair value of retained interests is determined using the present value of future expected cash flows as discussed above. During the three and six months ended May 31, 2009, a \$0.3 million and \$2.8 million writedown was booked as an other than temporary impairment (2008 – \$1.5 million and \$1.7 million).

The Company has recorded retained interests of \$42.3 million (November 30, 2008 – \$44.9 million) made up of i) the rights to future excess interest on these RSP loans after investors in the securitization trust have received the return for which they contracted, valued at \$8.7 million (November 30, 2008 – \$12.4 million), ii) cash collateral of \$12.5 million (November 30, 2008 – \$12.0 million) and iii) over-collateralization of \$21.0 million (November 30, 2008 – \$20.5 million).

As at May 31, 2009, the impaired loans included in the securitized balances were equal to \$0.3 million (November 30, 2008 – \$0.2 million), and during the three and six months ended May 31, 2009, \$0.8 million and \$1.5 million of securitized RSP loans were written off (2008 – \$0.9 million and \$1.6 million).

The Company's claim on the retained interests is subordinate to investors' interests. Recourse available to investors and the securitization trust are limited to the retained interests. For the three months ended May 31, 2009, cash flows of \$1.3 million (2008 – \$1.9 million) related to the interest-only strip were received on the securitized loans. For the six months ended May 31, 2009, cash flows of \$2.9 million (2008 – \$4.2 million) related to the interest-only strip were received on the

securitized loans. The total other income recognized from securitization, net of securitization writedown, during the three months ended May 31, 2009, was \$0.6 million (2008 – \$0.7 million loss). The total other loss recognized from securitization, net of securitization writedown, during the six months ended May 31, 2009, was \$1.0 million (2008 – \$0.1 million income).

The significant assumptions used to value the retained interests were as follows:

|   |               |
|---|---------------|
| Excess spread                               | 4.6% – 4.8%   |
| Discount rate on interest-only strip        | 7.5%          |
| Expected credit losses                      | 1.7% – 2.0%   |
| Prepayment rate                             | 16.3% – 18.3% |
| Expected weighted average life of RSP loans | 1.9 years     |

AGF Trust retained servicing responsibilities for the securitized loans. A servicing liability of \$0.8 million was recorded as at May 31, 2009 (November 30, 2008 – \$1.1 million). This amount represents the estimated future cost of servicing the securitized loans. The amount amortized related to the servicing liability during the three and six months ended May 31, 2009 was \$0.1 million (2008 – \$0.2 million) and \$0.3 million (2008 – \$0.4 million).

The following table presents key economic assumptions and the sensitivity of the current fair value of retained interests to two adverse changes in each key assumption as at May 31, 2009. Since the sensitivity is hypothetical, it should be used with caution. The effect of changes in the fair value of retained interests was calculated using a discounted cash flow analysis.

| (\$ thousands)         | Impact on fair value of<br>retained interests |
|------------------------|---|
| Discount rate          |   |
| +10%                   | \$ (65)                                       |
| +20%                   | (129)   |
| Prepayment rate        |   |
| +10%                   | \$ (112)                                      |
| +20%                   | (208)   |
| Expected credit losses |   |
| +10%                   | \$ (429)                                      |
| +20%                   | (858)   |
| Excess spread          |   |
| -10%                   | \$ (899)                                      |
| -20%                   | (1,795)                                       |

#### Note 4: Acquisition of Highstreet Partners Limited

On December 1, 2006, AGF acquired 79.9% of Highstreet Partners Limited (Highstreet). The purchase consideration was payable in a combination of cash and the issue of Class B non-voting shares (Class B shares). On March 2, 2009, a final payment of \$21.5 million was paid, consisting of \$20.0 million in cash and the issuance of 188,444 Class B shares valued at \$1.5 million. The total consideration paid, including acquisition costs and imputed interest, was \$65.4 million in cash and the issuance of 629,443 Class B shares valued at \$12.3 million. In addition, a contingent consideration will be paid in 2010 if certain financial profitability targets are achieved by Highstreet. At this time, the amount of the contingent consideration is not determinable.

**Note 5: AGF Trust**

AGF Trust's principal business activities are originating real estate secured loans and investment loans and deposit taking. Details relating to these activities are as follows:

| (\$ thousands)  | Term to contractual repricing |                   |                 | May 31,<br>2009 | November 30,<br>2008 |
|---|-------------------------------|-------------------|-----------------|-----------------|----------------------|
|   | Variable<br>rate              | 1 year or<br>less | 1 to 5<br>years |                 |                      |
| Mortgage loans  | \$ 1,566                      | \$ 516,605        | \$ 738,704      | \$ 1,256,875    | \$ 1,394,499         |
| Home equity lines of credit (HELOC)                     | 547,320                       | –                 | –               | 547,320         | 651,893              |
| Total real estate secured loans                         | 548,886                       | 516,605           | 738,704         | 1,804,195       | 2,046,392            |
| Investment loans  | 2,292,543                     | 3,677             | 4,176           | 2,300,396       | 2,411,968            |
| Total loans   | 2,841,429                     | 520,282           | 742,880         | 4,104,591       | 4,458,360            |
| Less: allowance for loan losses                         |                               |                   |                 | (49,210)        | (37,130)             |
| Add: net deferred sales commissions and commitment fees |                               |                   |                 | 7,638           | 9,620                |
|   |                               |                   |                 | 4,063,019       | 4,430,850            |
| Less: current portion                                   |                               |                   |                 | (569,349)       | (606,844)            |
|   |                               |                   |                 | \$ 3,493,670    | \$ 3,824,006         |

**(a) Real Estate Secured and Investment Loans**

The table represents the period of contractual repricing of interest rates on outstanding amounts. Principal repayments due on real estate and investment loans due within one year as at May 31, 2009 were \$569.3 million (November 30, 2008 – \$606.8 million).

As at May 31, 2009, AGF Trust's mortgage portfolio comprises a combination of fixed rate and variable rate residential mortgages with a weighted average term to repricing of 1.9 years (November 30, 2008 – 2.0 years) and a weighted average yield of 6.9% (November 30, 2008 – 7.1%). Insured mortgage loans, excluding loan loss allowance, deferred commissions and pending representation, were \$572.4 million as at May 31, 2009 (November 30, 2008 – \$616.6 million). Investment loans have interest rates based on prime. As at May 31, 2009, the average interest rate on HELOCs was 4.2% (November 30, 2008 – 4.5%) and on investment loans was 4.4% (November 30, 2008 – 5.8%). Mortgage and HELOC loans are secured primarily by residential real estate. Investment loans, excluding RSP loans, of \$1.8 billion (November 30, 2008 – \$1.8 billion), are secured primarily by the investment made using the initial loan proceeds. The market value of this investment loan collateral is approximately \$1.3 billion (November 30, 2008 – \$1.2 billion).

**(b) Loans by Province and by Type**

The following tables are a breakdown of the total value and total number of loans by province and by type:

| As at May 31, 2009<br>(\$ millions) | Insured<br>Mortgage<br>Loans | Conventional<br>Mortgage<br>Loans | Secured<br>Investment<br>Loans | RSP Loans | HELOC<br>Receivables | Finance<br>Loans | Total      |
|-------------------------------------|------------------------------|-----------------------------------|--------------------------------|-----------|----------------------|------------------|------------|
| British Columbia                    | \$ 11.3                      | \$ 42.7                           | \$ 333.9                       | \$ 48.9   | \$ 64.3              | \$ 0.4           | \$ 501.5   |
| Alberta                             | 66.2                         | 186.7                             | 214.3                          | 52.1      | 383.9                | 2.1              | 905.3      |
| Ontario                             | 352.9                        | 293.4                             | 864.3                          | 180.5     | 44.5                 | 1.3              | 1,736.9    |
| Quebec                              | 142.0                        | 161.7                             | 130.3                          | 189.7     | 0.3                  | 1.9              | 625.9      |
| Other                               | -                            | -                                 | 235.2                          | 43.3      | 54.3                 | 2.2              | 335.0      |
| Total value of loans                | \$ 572.4                     | \$ 684.5                          | \$ 1,778.0                     | \$ 514.5  | \$ 547.3             | \$ 7.9           | \$ 4,104.6 |

Notes to Consolidated Financial Statements

| As at May 31, 2009    | Insured Mortgage Loans | Conventional Mortgage Loans | Secured Investment Loans | RSP Loans | HELOC Receivables | Finance Loans | Total  |
|-----------------------|------------------------|-----------------------------|--------------------------|-----------|-------------------|---------------|--------|
| British Columbia      | 63                     | 178                         | 4,891                    | 5,311     | 270               | 193           | 10,906 |
| Alberta               | 814                    | 1,099                       | 3,697                    | 4,422     | 1,691             | 844           | 12,567 |
| Ontario               | 2,292                  | 1,763                       | 13,785                   | 19,803    | 250               | 438           | 38,331 |
| Quebec                | 308                    | 869                         | 2,387                    | 17,611    | 5                 | 709           | 21,889 |
| Other                 | -                      | -                           | 3,397                    | 3,769     | 366               | 1,031         | 8,563  |
| Total number of loans | 3,477                  | 3,909                       | 28,157                   | 50,916    | 2,582             | 3,215         | 92,256 |

| As at November 30, 2008 | Insured Mortgage Loans | Conventional Mortgage Loans | Secured Investment Loans | RSP Loans | HELOC Receivables | Finance Loans | Total      |
|-------------------------|------------------------|-----------------------------|--------------------------|-----------|-------------------|---------------|------------|
| (\$ millions)           |                        |                             |                          |           |                   |               |            |
| British Columbia        | \$ 12.8                | \$ 48.2                     | \$ 340.2                 | \$ 57.8   | \$ 84.7           | \$ 0.6        | \$ 544.3   |
| Alberta                 | 68.1                   | 214.6                       | 217.9                    | 59.8      | 446.0             | 3.0           | 1,009.4    |
| Ontario                 | 388.3                  | 335.9                       | 879.9                    | 216.1     | 60.9              | 2.0           | 1,883.1    |
| Quebec                  | 147.4                  | 179.2                       | 132.5                    | 208.1     | 0.3               | 2.6           | 670.1      |
| Other                   | -                      | -                           | 240.1                    | 48.5      | 60.0              | 2.9           | 351.5      |
| Total value of loans    | \$ 616.6               | \$ 777.9                    | \$ 1,810.6               | \$ 590.3  | \$ 651.9          | \$ 11.1       | \$ 4,458.4 |

| As at November 30, 2008 | Insured Mortgage Loans | Conventional Mortgage Loans | Secured Investment Loans | RSP Loans | HELOC Receivables | Finance Loans | Total   |
|-------------------------|------------------------|-----------------------------|--------------------------|-----------|-------------------|---------------|---------|
| British Columbia        | 66                     | 201                         | 4,944                    | 6,985     | 354               | 244           | 12,794  |
| Alberta                 | 327                    | 997                         | 3,735                    | 5,551     | 1,990             | 1,020         | 13,620  |
| Ontario                 | 2,518                  | 2,000                       | 13,930                   | 25,198    | 327               | 543           | 44,516  |
| Quebec                  | 834                    | 1,221                       | 2,411                    | 19,939    | 5                 | 857           | 25,267  |
| Other                   | -                      | -                           | 3,452                    | 4,488     | 407               | 1,193         | 9,540   |
| Total number of loans   | 3,745                  | 4,419                       | 28,472                   | 62,161    | 3,083             | 3,857         | 105,737 |

(c) Loans Past Due but Not Impaired

Loans are considered to be past due where repayment of principal or interest is contractually in arrears. Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest, or when principal or interest is 90 days past due, except where the loan is both well-secured and in the process of collection. As at May 31, 2009, impaired loans were \$60.9 million (November 30, 2008 – \$45.4 million) and \$37.8 million (November 30, 2008 – \$31.3 million) net of the specific allowance for loan losses.

| (\$ thousands)              | May 31, 2009 | November 30, 2008 |
|-----------------------------|--------------|-------------------|
| Impaired Loans:             |              |                   |
| Insured mortgage loans      | \$ 6,063     | \$ 5,483          |
| Conventional mortgage loans | 41,559       | 33,628            |
| Secured investment loans    | 2,256        | 988               |
| RSP loans                   | 10,273       | 4,846             |
| HELOC receivables           | 703          | 478               |
|                             | \$ 60,854    | \$ 45,423         |

The following table provides an aging of loans:

| <b>As at May 31, 2009</b>   |              |              |               |               |              |       |           |
|-----------------------------|--------------|--------------|---------------|---------------|--------------|-------|-----------|
| (\$ thousands)              | Current      | 1 to 29 days | 30 to 60 days | 61 to 90 days | Over 90 days | Total |           |
| Insured mortgage loans      | \$ 494,746   | \$ 36,394    | \$ 9,796      | \$ 4,076      | \$ 27,421    | \$    | 572,433   |
| Conventional mortgage loans | 569,157      | 50,993       | 15,826        | 6,870         | 41,596       |       | 684,442   |
| Secured investment loans    | 1,751,481    | 18,287       | 3,482         | 2,866         | 1,901        |       | 1,778,017 |
| RSP loans                   | 495,045      | 7,172        | 4,942         | 1,832         | 5,535        |       | 514,526   |
| HELOC receivables           | 541,911      | 2,826        | 1,224         | 620           | 739          |       | 547,320   |
| Finance loans               | 7,853        | —            | —             | —             | —            |       | 7,853     |
|                             | \$ 3,860,193 | \$ 115,672   | \$ 35,270     | \$ 16,264     | \$ 77,192    | \$    | 4,104,591 |

| <b>As at November 30, 2008</b> |              |              |               |               |              |       |           |
|--------------------------------|--------------|--------------|---------------|---------------|--------------|-------|-----------|
| (\$ thousands)                 | Current      | 1 to 29 days | 30 to 60 days | 61 to 90 days | Over 90 days | Total |           |
| Insured mortgage loans         | \$ 551,772   | \$ 29,567    | \$ 6,085      | \$ 3,313      | \$ 25,878    | \$    | 616,615   |
| Conventional mortgage loans    | 670,763      | 53,741       | 12,176        | 7,537         | 33,668       |       | 777,885   |
| Secured investment loans       | 1,790,788    | 15,284       | 2,220         | 1,510         | 790          |       | 1,810,592 |
| RSP loans                      | 574,049      | 9,958        | 4,435         | 1,120         | 752          |       | 590,314   |
| HELOC receivables              | 646,891      | 3,847        | 658           | —             | 497          |       | 651,893   |
| Finance loans                  | 11,061       | —            | —             | —             | —            |       | 11,061    |
|                                | \$ 4,245,324 | \$ 112,397   | \$ 25,574     | \$ 13,480     | \$ 61,585    | \$    | 4,458,360 |

**(d) Mortgages in Legal Action**

The following table provides a summary of conventional mortgages in legal action which includes demand for payment, power of sale and foreclosures. The table details opening mortgages in legal action for the period and related changes to the pool, being additions, discharged mortgages other than sold, proceeds on foreclosed mortgages discharged and related losses, to arrive at the ending balance of mortgages in legal action.

| <b>Six months ended May 31,</b>              | <b>2009</b> |          | <b>2008</b> |          |
|--|-------------|----------|-------------|----------|
| (\$ thousands)                               |             |          |             |          |
| Balance outstanding, beginning of the period | \$          | 44,987   | \$          | 35,070   |
| Additions                                    |             | 27,058   |             | 19,730   |
| Discharged mortgages other than sold         |             | (11,425) |             | (16,165) |
| Proceeds on foreclosed mortgages discharged  |             | (9,518)  |             | (4,179)  |
| Loss on foreclosed mortgages discharged      |             | (1,049)  |             | (483)    |
|  | \$          | 50,053   | \$          | 33,973   |

**(e) Allowance for Credit Losses**

During 2008, as a result of economic and market indicators, the Company refined its provision for specific allowances to include loans in arrears of one to 90 days in addition to impaired loans. The change in the allowance for loan losses is as follows:

| <b>Six months ended May 31, 2009</b><br>(\$ thousands) | <b>Specific allowances</b> | <b>General allowances</b> | <b>Total allowances</b> |
|--|----------------------------|---------------------------|-------------------------|
| Balance, beginning of the period                       | \$ 14,163                  | \$ 22,967                 | \$ 37,130               |
| Amounts written off                                    | (15,020)                   | –                         | (15,020)                |
| Recoveries   | 747                        | –                         | 747                     |
| Provision for loan losses                              | 23,216                     | 3,137                     | 26,353                  |
|  | \$ 23,106                  | \$ 26,104                 | \$ 49,210               |
| Breakdown by category as at May 31, 2009:              |                            |                           |                         |
| Conventional mortgage loans                            | \$ 6,359                   | \$ 7,453                  | \$ 13,812               |
| Secured investment loans                               | 3,690                      | 6,884                     | 10,574                  |
| RSP loans  | 12,995                     | 10,427                    | 23,422                  |
| HELOCs receivables                                     | 62                         | 1,340                     | 1,402                   |
|  | \$ 23,106                  | \$ 26,104                 | \$ 49,210               |

| <b>Six months ended May 31, 2008</b><br>(\$ thousands) | <b>Specific allowances</b> | <b>General allowances</b> | <b>Total allowances</b> |
|--|----------------------------|---------------------------|-------------------------|
| Balance, beginning of the period                       | \$ 1,860                   | \$ 15,277                 | \$ 17,137               |
| Amounts written off                                    | (3,915)                    | –                         | (3,915)                 |
| Recoveries   | 414                        | –                         | 414                     |
| Provision for loan losses                              | 3,676                      | 2,785                     | 6,461                   |
|  | \$ 2,035                   | \$ 18,062                 | \$ 20,097               |
| Breakdown by category as at May 31, 2008:              |                            |                           |                         |
| Conventional mortgage loans                            | \$ 1,139                   | \$ 7,572                  | \$ 8,711                |
| Secured investment loans                               | 103                        | 4,218                     | 4,321                   |
| RSP loans  | 793                        | 4,884                     | 5,677                   |
| HELOC receivables                                      | –                          | 1,388                     | 1,388                   |
|  | \$ 2,035                   | \$ 18,062                 | \$ 20,097               |

**(f) AGF Trust Deposits**

| (\$ thousands)                     | Term to maturity |                |              | May 31, 2009 | November 30, 2008 |
|------------------------------------|------------------|----------------|--------------|--------------|-------------------|
|                                    | Demand           | 1 year or less | 1 to 5 years |              |                   |
| Deposits                           | \$ 5,389         | \$ 2,374,330   | \$ 2,056,182 | \$ 4,435,901 | \$ 4,776,511      |
| Less: deferred selling commissions |                  |                |              | (11,914)     | (14,450)          |
| Less: current portion              |                  |                |              | (2,379,719)  | (2,486,635)       |
| Long-term deposits                 |                  |                |              | \$ 2,044,268 | \$ 2,275,426      |

As at May 31, 2009, deposits were substantially comprised of GICs with a weighted average term to maturity of 1.3 years (November 30, 2008 – 1.4 years) and a weighted average interest rate of 3.94% (November 30, 2008 – 4.22%). Approximately 8.5% of deposits mature within 90 days (November 30, 2008 – 11.7%).

**(g) Interest Rate Swaps**

To hedge its exposure to fluctuating interest rates, AGF Trust has entered into interest rate swap transactions with four Canadian chartered banks, as noted below. The swap transactions expire between June 2009 and October 2012. They involve the exchange of either the one-month bankers' acceptance (BA) rate or the three-month BA rate to receive fixed interest rates. The swap contracts designated as fair value hedging instruments for deposits are used by AGF Trust for balance sheet matching purposes and to mitigate net interest revenue volatility. As at May 31, 2009, the aggregate

notional amount of the swap transactions was \$2.6 billion (November 30, 2008 – \$3.2 billion). The aggregate fair value of the swap transactions, which represents the amount that would be received by AGF Trust if the transactions were terminated at May 31, 2009, was \$78.2 million (November 30, 2008 – \$85.0 million).

| Notional amount of swap |           | Fair value     |        | Maturity date | Fixed interest rate received |
|-------------------------|-----------|----------------|--------|---------------|------------------------------|
| (\$ thousands)          |           | (\$ thousands) |        |               |                              |
| \$                      | 1,022,000 | \$             | 7,602  | 2009          | 0.70% - 4.97%                |
|                         | 945,000   |                | 32,204 | 2010          | 0.84% - 5.05%                |
|                         | 445,000   |                | 27,968 | 2011          | 0.85% - 5.08%                |
|                         | 160,000   |                | 10,468 | 2012          | 1.60% - 5.01%                |

## Note 6: Other Assets

| (\$ thousands)   | May 31,<br>2009 | November 30,<br>2008 |
|--|-----------------|----------------------|
| Long-term portion of derivatives used to manage interest rate exposure | \$ 60,188       | \$ 85,097            |
| Other  | 3,389           | 1,920                |
|  | \$ 63,577       | \$ 87,017            |

The current portion of derivatives used to manage interest rate exposure is included under accounts receivable and prepaid expenses. As at May 31, 2009, the current portion was \$18.1 million (November 30, 2008 – nil). Refer to Note 5(g) for details on the derivatives used to manage interest rate exposure. Refer to Note 14 for further details of the Company's derivative instruments.

## Note 7: Long-Term Debt

| (\$ thousands)   | May 31,<br>2009 | November 30,<br>2008 |
|--|-----------------|----------------------|
| Revolving term loan  | \$ 194,654      | \$ 123,740           |
| Payment related to acquisition of Highstreet Partners Limited (note 4) | –               | 21,171               |
|  | 194,654         | 144,911              |
| Less: amount included in current liabilities                           | –               | 21,171               |
|  | \$ 194,654      | \$ 123,740           |

### (a) Revolving Term Loan

The Company has arranged a six-year prime-rate-based revolving term loan to a maximum of \$300.0 million (November 30, 2008 – \$300.0 million) with a Canadian chartered bank. Under the loan agreement, AGF is permitted to draw down the revolving term loan by direct advances and/or bankers' acceptances (BAs). The revolving term loan is available at any time for a period of 364 days from commencement of the loan (the commitment period). The expiration of the current commitment period is July 31, 2009. However, AGF may request within 75 to 90 days prior to the end of the commitment period a recommencement of the six-year term at the expiry of the then-current commitment period. As at May 31, 2009, AGF has requested a recommencement of the loan. No repayment of the principal amount outstanding pursuant to the revolving term loan is required during the first three years of the then applicable term. Thereafter, the loan balance shall be repaid in minimum monthly instalments of at least one-thirty-sixth of the amount of principal outstanding. As at May 31, 2009, AGF has drawn \$194.7 million (November 30, 2008 – \$177.8 million) against the facility in the form of three to 32 day BAs at an effective average interest rate of 2.3% (November 30, 2008 – 2.9%) per annum.

Security for the bank loans include a specific claim over the management fees owing from the mutual funds (subject to the existing claims of related limited partnerships) for which AGF acts as manager and a pledge of assets by AGF Management Limited and certain subsidiaries, including AGF Funds Inc. and 20/20 Financial Corporation.

**(b) Payments Due Related to Acquisition of Highstreet Partners Limited**

On December 1, 2006, AGF acquired 79.9% of Highstreet (refer to Note 4). On March 2, 2009, a final payment of \$21.5 million was paid. The payment consisted of \$20.0 million in cash and the issuance of 188,444 Class B shares valued at \$1.5 million.

**Note 8: Other Long-term Liabilities**

| (\$ thousands)   | May 31,<br>2009 | November 30,<br>2008 |
|--|-----------------|----------------------|
| Long-term portion of derivative used to manage changes in share-based compensation | \$ 3,550        | \$ 7,755             |
| Long-term compensation liabilities   | 408             | 2,668                |
| Long-term portion of Elements Advantage  | 3,110           | 3,808                |
| Other  | 1,801           | 764                  |
|  | \$ 8,869        | \$ 14,995            |

The current portion of the derivative used to manage changes in share-based compensation is included under accounts payable and accrued liabilities. As at May 31, 2009, the current portion was \$2.3 million (November 30, 2008 – nil). The notional amount of the derivative used to manage share-based compensation is \$10.3 million or 334,457 share units and matures in 2010. Refer to Note 14 for further details on the Company's derivative instruments.

The current portion of the Elements Advantage liability is included under accounts payable and accrued liabilities. As at May 31, 2009, the current portion was \$4.8 million (November 30, 2008 – \$4.0 million).

**Note 9: Capital Stock****(a) Authorized Capital**

The authorized capital of AGF consists of an unlimited number of AGF Class B non-voting common shares (Class B shares) and an unlimited number of AGF Class A voting common shares (Class A shares). The Class B shares are listed for trading on the Toronto Stock Exchange.

**(b) Change During the Period**

The change in capital stock is summarized as follows:

| Six months ended May 31,<br>(\$ thousands, except share amounts) | 2009       |              | 2008       |              |
|--|------------|--------------|------------|--------------|
|  | Shares     | Stated value | Shares     | Stated value |
| <b>Class A shares</b>  | 57,600     | \$ –         | 57,600     | \$ –         |
| <b>Class B shares</b>  |            |              |            |              |
| Balance, beginning of period                                     | 88,480,104 | \$ 431,897   | 88,922,157 | \$ 421,923   |
| Issued through dividend reinvestment plan                        | 153,670    | 1,381        | 134,460    | 3,170        |
| Stock options exercised  | –          | –            | 100,150    | 4,412        |
| Issued on acquisition of Highstreet Partners Limited (note 4)    | 188,444    | 1,536        | 215,883    | 5,116        |
| Balance, end of period   | 88,822,218 | \$ 434,814   | 89,372,650 | \$ 434,621   |

**(c) Class B Shares Purchased for Cancellation**

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B shares through the facilities of the Toronto Stock Exchange (or as otherwise permitted by the Toronto Stock Exchange). Under its normal course issuer bid, AGF may purchase up to 10% of the public float outstanding on the date of the receipt of regulatory approval or up to 7,108,630 shares through to February 25, 2010. No Class B shares were purchased during the three and six months ended May 31, 2009 (2008 – nil).

**(d) Stock Option Plans**

AGF has established stock option plans for senior employees under which stock options to purchase an aggregate maximum of 4,581,801 Class B shares could have been granted as at May 31, 2009 (2008 – 6,647,252). The stock options are issued at a price not less than the market price of the Class B shares immediately prior to the grant date. Stock options are vested to the extent of 25% to 33% of the individual's entitlement per annum, or in some instances, vest at the end of the term of the option.

The change in stock options during 2009 and 2008 is summarized as follows:

| Six months ended May 31,     | 2009      |                                 | 2008      |                                 |
|------------------------------|-----------|---------------------------------|-----------|---------------------------------|
|                              | Options   | Weighted average exercise price | Options   | Weighted average exercise price |
| <b>Class B share options</b> |           |                                 |           |                                 |
| Balance, beginning of period | 6,576,948 | \$ 16.59                        | 4,268,765 | \$ 22.50                        |
| Options granted              | –         | –                               | –         | n/m                             |
| Options forfeited/expired    | (487,799) | 20.58                           | (114,917) | 25.04                           |
| Options exercised            | –         | –                               | (100,150) | 18.99                           |
| Balance, end of period       | 6,089,149 | \$ 16.27                        | 4,053,698 | \$ 22.51                        |

During the three months ended May 31, 2009 and 2008, no stock options were granted and compensation expense and contributed surplus of \$0.8 million (2008 – \$1.2 million) were recorded.

During the six months ended May 31, 2009 and 2008, no stock options were granted and compensation expense and contributed surplus of \$1.7 million (2008 – \$2.5 million) were recorded.

**(e) Restricted Share Unit (RSU) and Performance Share Unit (PSU) Plans**

The changes in share units during the six months ended May 31, 2009 and May 31, 2008, are as follows:

| Six months ended May 31,         | 2009                  | 2008                  |
|----------------------------------|-----------------------|-----------------------|
|                                  | Number of share units | Number of share units |
| Outstanding, beginning of period |                       |                       |
| Non-vested                       | 680,889               | 345,257               |
| Issued                           |                       |                       |
| Initial allocation               | –                     | –                     |
| In lieu of dividends             | 35,339                | 6,303                 |
| Settled in cash                  | (4,332)               | –                     |
| Forfeited and cancelled          | (36,381)              | (16,560)              |
| Outstanding, end of period       | 675,515               | 335,000               |

Compensation expense for the three months ended May 31, 2009 related to these share units was \$0.4 million (2008 – \$0.8 million), and for the six months ended May 31, 2009, was \$0.8 million (2008 – \$1.7 million). During the year ended November 30, 2008, it was determined that the achievement of certain performance criteria necessary for the PSUs to be paid was unlikely. As a result, the Company no longer records a liability for PSUs. AGF has entered into a swap agreement to fix the cost of compensation related to certain RSUs and PSUs. As at May 31, 2009, AGF has economically hedged 171,607 share units at a fixed cost of \$30.72. Refer to Note 14 for further details on the Company's derivative instruments.

**(f) Deferred Share Unit (DSU) Plan**

There is no unrecognized compensation expense related to directors' DSUs since these awards vest immediately upon grant. As at May 31, 2009, 39,254 (2008 – 14,245) DSUs were outstanding. Compensation expense related to these DSUs for three months ended May 31, 2009 was \$0.2 million (2008 – \$0.1 million), and for the six months ending May 31, 2009, was \$0.3 million (2008 – \$0.2 million).

**(g) Earnings per Share**

The following table sets forth the calculation of both basic and diluted earnings per share and earnings per share and diluted earnings per share from continuing operations.

| (\$ thousands, except per share amounts)    | Three months ended May 31, |            | Six months ended May 31, |            |
|---|----------------------------|------------|--------------------------|------------|
|   | 2009                       | 2008       | 2009                     | 2008       |
| Numerator                                   |                            |            |                          |            |
| Net income for the period                   | \$ 17,256                  | \$ 44,047  | \$ 29,408                | \$ 106,706 |
| Denominator                                 |                            |            |                          |            |
| Weighted average number of shares – basic   | 88,826,605                 | 89,349,275 | 88,696,825               | 89,194,845 |
| Dilutive effect of employee stock options   | 407,410                    | 436,521    | 198,179                  | 573,495    |
| Weighted average number of shares – diluted | 89,234,015                 | 89,785,796 | 88,895,004               | 89,768,340 |
| Earnings per share                          |                            |            |                          |            |
| Basic                                       | \$ 0.19                    | \$ 0.49    | \$ 0.33                  | \$ 1.20    |
| Diluted                                     | \$ 0.19                    | \$ 0.49    | \$ 0.33                  | \$ 1.19    |

**Note 10: Supplemental Disclosure of Cash Flow Information****(a) Changes in Non-Cash Operating Working Capital Items**

| (\$ thousands)  | Three months ended May 31, |            | Six months ended May 31, |           |
|---|----------------------------|------------|--------------------------|-----------|
|   | 2009                       | 2008       | 2009                     | 2008      |
| (Increase) decrease in accounts receivable                      | \$ (29,972)                | \$ 14,075  | \$ (15,370)              | \$ 25,001 |
| Decrease in other assets  | 19,149                     | 46,400     | 21,724                   | 2,787     |
| Increase (decrease) in accounts payable and accrued liabilities | 18,579                     | 41,990     | (40,327)                 | 3,108     |
| Increase (decrease) in deposits and other liabilities           | (440)                      | 918        | 556                      | 1,182     |
|   | \$ 7,316                   | \$ 103,383 | \$ (33,417)              | \$ 32,078 |

**(b) Income Taxes and Interest Paid**

| (\$ thousands)    | Three months ended May 31, |           | Six months ended May 31, |            |
|-------------------|----------------------------|-----------|--------------------------|------------|
|                   | 2009                       | 2008      | 2009                     | 2008       |
| Income taxes paid | \$ 9,894                   | \$ 7,088  | \$ 37,799                | \$ 21,100  |
| Interest paid     | 28,067                     | 47,213    | 63,446                   | 97,885     |
|                   | \$ 37,961                  | \$ 54,301 | \$ 101,245               | \$ 118,985 |

**Note 11: AGF Trust Net Interest Income**

The breakdown of net interest income is as follows:

| (\$ thousands)                | Three months ended May 31, |           | Six months ended May 31, |            |
|-------------------------------|----------------------------|-----------|--------------------------|------------|
|                               | 2009                       | 2008      | 2009                     | 2008       |
| AGF Trust interest income     |                            |           |                          |            |
| Loan interest                 | \$ 53,901                  | \$ 68,711 | \$ 114,871               | \$ 135,208 |
| Investment interest           | 4,679                      | 7,292     | 10,448                   | 17,547     |
|                               | 58,580                     | 76,003    | 125,319                  | 152,755    |
| AGF Trust interest expense    |                            |           |                          |            |
| Deposit interest              | 46,575                     | 50,225    | 94,864                   | 97,368     |
| Other interest expense        | (13,672)                   | 710       | (21,735)                 | 7,523      |
|                               | 32,903                     | 50,935    | 73,129                   | 104,891    |
| AGF Trust net interest income | \$ 25,677                  | \$ 25,068 | \$ 52,190                | \$ 47,864  |

**Note 12: Income Tax**

In December 2007, a reduction of the federal corporate income tax rate from 18.5% to 15.0% by January 1, 2012 was substantively enacted. Accordingly, during the six months ended May 31, 2008, the Company recognized a \$19.5 million reduction in future income tax liabilities.

**Note 13: Capital Management**

Detailed disclosure of the Company's capital, including management objectives and policies and regulatory capital requirements, are included in Note 23 to the 2008 Audited Consolidated Financial Statements. The cumulative amount of minimum regulatory capital in the Investment Management business remains unchanged from November 30, 2008 at approximately \$6.0 million.

Capital measures at AGF Trust are detailed as follows:

| As at<br>(\$ thousands, except for risk-weighted assets in \$ millions) | Basel II        |                      |
|---|-----------------|----------------------|
|   | May 31,<br>2009 | November 30,<br>2008 |
| Risk-weighted assets <sup>1</sup>                                       |                 |                      |
| Credit risk   | \$ 2,010.8      | \$ 2,244.3           |
| Operational risk  | 197.4           | 172.6                |
| Total risk-weighted assets  | 2,208.2         | 2,416.9              |
| Tier 1 capital  |                 |                      |
| Common shares   | \$ 82,768       | \$ 82,768            |
| Contributed surplus   | 1,492           | 1,338                |
| Retained earnings   | 108,370         | 101,432              |
| Non-cumulative preferred shares   | 64,000          | 64,000               |
| Less: securitization and other  | (12,967)        | (15,567)             |
|   | 243,663         | 233,971              |
| Tier 2 capital  |                 |                      |
| Subordinated debentures   | 109,500         | 109,500              |
| General allowances  | 17,594          | 19,638               |
| Less: securitization and other  | (7,565)         | (8,295)              |
|   | 119,529         | 120,843              |
| Total capital   | \$ 363,192      | \$ 354,814           |

<sup>1</sup> For operational risk, AGF Trust uses the Basic Indicator Approach - calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.

**Note 14: Financial Instruments**

The carrying amounts for the Company's financial instruments classified based on categories according to CICA Handbook "Section 3855 Financial Instruments – Recognition and Measurement" are as follows:

| <b>As at May 31, 2009</b>                |           |                | <b>Available<br/>for<br/>Sale</b> | <b>Held<br/>for<br/>Trading</b> | <b>Loans and<br/>Receivables or<br/>Other Financial<br/>Liabilities</b> |
|--|-----------|----------------|-----------------------------------|---------------------------------|---|
| (\$ thousands)                           |           |                |                                   |                                 |   |
| Cash and cash equivalents                | \$        | –              | \$                                | 348,010                         | \$ –  |
| Investments                              |           | 470,715        |                                   | –                               | –   |
| Retained interest from securitization    |           | 42,252         |                                   | –                               | –   |
| Accounts receivable                      |           | –              |                                   | –                               | 72,693  |
| Real estate secured and investment loans |           | –              |                                   | –                               | 4,063,019   |
| Derivatives                              |           | –              |                                   | 78,242                          | –   |
| Other assets                             |           | –              |                                   | –                               | 3,389   |
| <b>Total financial assets</b>            | <b>\$</b> | <b>512,967</b> | <b>\$</b>                         | <b>426,252</b>                  | <b>\$ 4,139,101</b>   |
| Accounts payable and accrued liabilities | \$        | –              | \$                                | –                               | \$ 265,733  |
| Long-term debt                           |           | –              |                                   | –                               | 194,654   |
| Deposits                                 |           | –              |                                   | –                               | 4,423,987   |
| Derivatives                              |           | –              |                                   | 5,877                           | –   |
| Other long-term liabilities              |           | –              |                                   | –                               | 5,319   |
| <b>Total financial liabilities</b>       | <b>\$</b> | <b>–</b>       | <b>\$</b>                         | <b>5,877</b>                    | <b>\$ 4,889,693</b>   |

  

| <b>As at November 30, 2008</b>           |           |                | <b>Available<br/>for<br/>Sale</b> | <b>Held<br/>for<br/>Trading</b> | <b>Loans and<br/>Receivables or<br/>Other Financial<br/>Liabilities</b> |
|--|-----------|----------------|-----------------------------------|---------------------------------|---|
| (\$ thousands)                           |           |                |                                   |                                 |   |
| Cash and cash equivalents                | \$        | –              | \$                                | 584,168                         | \$ –  |
| Investments                              |           | 188,435        |                                   | –                               | –   |
| Retained interest from securitization    |           | 44,947         |                                   | –                               | –   |
| Accounts receivable                      |           | –              |                                   | –                               | 76,316  |
| Real estate secured and investment loans |           | –              |                                   | –                               | 4,430,850   |
| Derivatives                              |           | –              |                                   | 85,097                          | –   |
| Other assets                             |           | –              |                                   | –                               | 1,920   |
| <b>Total financial assets</b>            | <b>\$</b> | <b>233,382</b> | <b>\$</b>                         | <b>669,265</b>                  | <b>\$ 4,509,086</b>   |
| Accounts payable and accrued liabilities | \$        | –              | \$                                | –                               | \$ 306,834  |
| Long-term debt                           |           | –              |                                   | –                               | 144,911   |
| Deposits                                 |           | –              |                                   | –                               | 4,762,061   |
| Derivatives                              |           | –              |                                   | 7,755                           | –   |
| Other long-term liabilities              |           | –              |                                   | –                               | 7,240   |
| <b>Total financial liabilities</b>       | <b>\$</b> | <b>–</b>       | <b>\$</b>                         | <b>7,755</b>                    | <b>\$ 5,221,046</b>   |

**Risk Management**

In the normal course of business, the Company manages risks that arise as a result of its use of financial instruments. These risks include market, liquidity and credit risk.

**Market Risk**

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market factors. Market risk includes fair value risk, interest rate risk and foreign currency risk. The Company is exposed to these risks directly through its financial instruments.

**Fair Value Risk**

Fair value risk is the risk of loss due to adverse changes in equity prices. The Company is exposed to fair value risk on its investments available for sale related to mutual funds and equity securities, retained interest from securitization and derivative positions used to manage changes in share-based compensation. Any unrealized gains or losses arising from changes in the fair value of the financial instruments available for sale are recorded in other comprehensive income. Based on the carrying value of the investments referred to above at May 31, 2009, the effect of a 10% decline or increase in the value of investments would result in a \$2.5 million annualized unrealized gain or loss to other comprehensive income (2008 – \$2.4 million). Refer to Note 3 for the effect of changes to key assumptions on the fair value of retained interests.

**Interest Rate Risk**

Interest rate risk, inclusive of credit spread risk, is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; mortgage prepayment rates; changes in the market price of credit and the creditworthiness of a particular client.

The Company, through AGF Trust, is exposed to interest rate risk through its real estate secured and investment loans receivable, managed and supervised by AGF Trust's Asset and Liability Committee. AGF Trust employs a number of techniques to manage this risk, including the matching of asset and liability terms. AGF Trust also uses interest rate swaps to manage any residual mismatches. In addition, AGF Trust has assessed the interest rate risk for investment loans, RSP loans and HELOC receivables, to be low due to the variable rate nature of these products. AGF Trust is also exposed to interest rate risk through its investments available for sale. As at May 31, 2009, a 1% increase in interest rates would result in an increase in annual net interest income of approximately \$5.1 million (2008 – \$3.1 million), while a 1% decrease in interest rates will result in an increase in net interest income of approximately \$0.2 million (2008 – \$3.1 million).

The Company is also exposed to interest rate risk through its floating-rate debt and cash balances. As at May 31, 2009, the effect of a 1% change in the variable interest rates on the average loan balance outstanding for the six months would have resulted in an annualized change in interest expense of approximately \$1.6 million (2008 – \$2.1 million).

**Foreign Currency Risk**

Foreign currency risk is the risk of loss due to changes in spot and forward rates and the volatility of currency exchange rates. The Company is subject to foreign exchange risk on its integrated foreign subsidiaries in Ireland and Singapore, which provide investment advisory services. These subsidiaries retain minimal monetary exposure to the local currency, as the majority of revenues are earned in Canadian dollars and salaries and wages are primarily paid on a monthly basis and represent the majority of the local currency expenses. As such, these foreign subsidiaries have limited use of financial instruments denominated in local currencies, thus resulting in minimal foreign exchange risk.

**Derivative Instruments**

Details of the Company's derivative instruments are as follows:

| As at May 31, 2009   |               | Hedging item          | Notional  | Fair    |
|--|---------------|-----------------------|-----------|---------|
| (\$ thousands)   | Interest Rate | maximum maturity date | amount    | Value   |
| Derivatives used to manage interest rate exposure              | 0.70% - 5.08% | 2012                  | 2,572,000 | 78,242  |
| Derivatives used to manage changes in share-based compensation | –             | 2010                  | 10,275    | (5,877) |

  

| As at November 30, 2008  |               | Hedging item          | Notional  | Fair    |
|--|---------------|-----------------------|-----------|---------|
| (\$ thousands)   | Interest Rate | maximum maturity date | amount    | Value   |
| Derivatives used to manage interest rate exposure              | 1.31% - 5.08% | 2012                  | 3,167,000 | 85,097  |
| Derivatives used to manage changes in share-based compensation | –             | 2010                  | 10,275    | (7,755) |

## Liquidity Risk

Liquidity risk arises from the possibility that the Company cannot meet a demand for cash resources when required or meet its financial obligations.

The Company manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Notes 9 and 13. In its Investment Management and Other segment, the Company manages its liquidity by monitoring actual and projected cash flows to ensure that it has sufficient liquidity through cash received from operations, as well as borrowings under its credit facility. The key liquidity requirements within this segment are the funding of commissions paid on mutual funds and dividends paid to shareholders. The Company is subject to certain financial loan covenants under its credit facility and has met all of these conditions.

AGF Trust manages liquidity risk through deposit-taking activities and through the securitization of loans. The key liquidity requirements within this segment are the funding of mortgages and loans and the ability to pay out maturing GICs. AGF Trust's overall liquidity risk is managed by its treasury department and is supervised by AGF Trust's Asset and Liability Committee in accordance with the policies for management of assets and liabilities, liquidity and loan financing activities. These policies aim to ensure that AGF Trust has sufficient cash resources to meet its current and future financial obligations in the regular course of business and under a variety of conditions.

Management monitors cash resources daily to ensure that AGF Trust's liquidity measurements are within the limits established by policies. In addition, management meets regularly to assess the timing of cash inflows and outflows related to loan and deposit maturities, and to review various possible stress scenarios. AGF Trust aims to maintain a prudent reserve of unencumbered liquid assets that are readily available if required. It strives to maintain a stable volume of base deposits that originate from its deposit brokerage clientele.

The Government of Canada introduced a guarantee program on debt issuances of deposit-taking institutions. Under that program, AGF Trust can issue up to \$900.0 million of debt with a government backstop and a term of up to three years.

The Company's internal audit department reviews the compliance of AGF Trust's liquidity policies. Internal audit reports are presented to the Audit Committee of the Trust Board for review.

## Credit Risk

Credit risk is the potential of financial loss arising from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. The Company's overall credit risk strategy and credit risk policy are developed by its Executive Committee and further refined at the business unit level, through the use of policies, processes and internal controls. They are designed to promote business activities while ensuring these activities are within the standards of risk tolerance levels. As at May 31, 2009, financial assets of \$5.1 billion (November 30, 2008 – \$5.4 billion), consisting of cash and cash equivalents, investments, retained interests from securitization, real estate secured loans and investment loans, accounts receivable and other assets, were exposed to credit risk up to the maximum of their respective carrying value.

Cash and cash equivalents consist primarily of highly liquid temporary deposits with Canadian and Irish banks, as well as commercial paper, bank-sponsored ABCP, bank deposit notes, reverse re-purchase agreements, BAs and floating-rate notes.

Investments subject to credit risk consist primarily of floating-rate notes, senior debt instruments, investments in mutual funds of AGF and other securities. For investing activities done through AGF Trust, policies have been established that identify the types and rating of debt investments in which AGF Trust can invest. These policies also restrict AGF Trust's transactions primarily to major chartered banks and recognized investment dealers who are members of the Investment Industry Regulatory Organization of Canada (IIROC). AGF Trust Executive Committee (EXCO) maintains a list of the approved securities dealers and counterparties, which are reviewed at least annually by the Trust Board. AGF Trust uses external credit rating agencies in assessing the credit quality of certain investments in financial assets. The credit rating agencies used include DBRS, S&P and Moody's. As at May 31, 2009, AGF Trust held investments with long term ratings from DBRS of A (high) to AAA (or the equivalent from other credit rating agencies). AGF Trust held investments with short term ratings from DBRS of R-1 (high) (or the equivalent from other credit rating agencies).

The Company's most significant credit risk is through AGF Trust's real estate secured loans and investment loans. AGF Trust mitigates this risk through stringent credit policies and lending practices. These policies aim to ensure that the authority to approve credit applications is appropriately delegated by senior management or the Investment Committee of AGF Trust, depending on the risk and the amount of the credit application. The credit policies also provide guidelines for pricing based on risk, for reviewing any collateral pledged for a credit application, monitoring of impaired loans and for establishing and reviewing loan loss provisions to ensure they are adequate. The policies establish risk limits for credit concentration by counterparty, geographic location and other risk factors that would impact AGF Trust's credit risk profile. AGF Trust has adjusted its policies and criteria related to its loan provisions and lending practices to reflect the higher probability of default that occurs during a weaker economy.

At May 31, 2009, AGF Trust's loan assets totalled \$4.1 billion (November 30, 2008 – \$4.5 billion) and were comprised of mortgage loans, investment loans, RSP loans, finance loans and HELOC receivables. Of this amount, \$1.2 billion (November 30, 2008 – \$1.4 billion) was represented by mortgage loans and \$0.6 billion (November 30, 2008 – \$0.7 billion) was represented by HELOC receivables, both of which are secured by residential real estate. At May 31, 2009, 45.5% (November 30, 2008 – 44.2%) of mortgage loans were insured by Canada Mortgage and Housing Corporation (CMHC) or another insurer. Conventional uninsured mortgages have loan-to-value ratios of less than 80% of the appraised value of the property at the time the mortgage loan was granted. The average loan-to-value ratio of uninsured mortgage loans was 62.6% as at May 31, 2009 (2008 – 63.3%).

Residential mortgages represent the largest component of the total mortgage portfolio, comprising 97.4% as at May 31, 2009 (November 30, 2008 – 97.5%). AGF Trust's credit risk on these loans is also mitigated through the use of collateral, primarily in the form of residential real estate. Under AGF Trust's lending criteria, management reviews all mortgage loans on a regular basis to determine the appropriate allowance for loss required by AGF Trust. Risk is also mitigated through residential mortgage insurance through CMHC or another insurer. As at May 31, 2009, \$572.4 million of AGF Trust's residential mortgage portfolio was insured (November 30, 2008 – \$616.6 million).

Credit risk for HELOCs and investment loans is mitigated by collateral in the form of residential mortgages and investment funds, respectively. Investment loans, excluding RSP loans, of \$1.8 billion (November 30, 2008 – \$1.8 billion), are secured primarily by the investment made using the initial loan proceeds. The market value of this investment loan collateral is approximately \$1.3 billion (November 30, 2008 – \$1.2 billion).

RSP loans are used by borrowers to purchase assets in a retirement savings plan. The creditworthiness of each borrower is assessed prior to approval of the loan. Predictive scorecards are used to determine the probability of default and bankruptcy of the borrowers. On a regular basis, AGF Trust reviews the credit quality in the portfolio. Loans in arrears are also reviewed regularly to determine the appropriate loan loss reserves.

Derivative financial instruments expose AGF Trust to credit risk to the extent that if a counterparty default occurs, market conditions are such that AGF Trust would incur a loss in replacing the defaulted transaction. AGF Trust negotiates derivative master netting agreements with counterparties with which it contracts. These agreements reduce credit risk exposure. AGF Trust assesses the creditworthiness of the counterparties to minimize the risk of counterparty default under the agreements. AGF Trust only uses major Chartered banks as counterparties with a minimum credit rating of AA.

## Note 15: Segment Information

AGF has three reportable segments: Investment Management Operations, Trust Company Operations and Other. The Investment Management Operations segment provides investment management and advisory services and is responsible for the management and distribution of AGF investment products. AGF Trust offers a range of trust services including GICs, term deposits, real estate secured loans and investment loans. The results of Smith & Williamson Holdings Limited have been included in Other.

The results of the reportable segments are based on the internal financial reporting systems of AGF. The accounting policies used in these segments are generally consistent with those described in the "Summary of Significant Accounting Policies" detailed in AGF's 2008 Annual Report.

| Three months ended May 31, 2009 | Investment |            | Trust              |    |         |
|---------------------------------|------------|------------|--------------------|----|---------|
| (\$ thousands)                  | Management | Company    | Operations         |    | Total   |
|                                 | Operations | Operations | Other <sup>1</sup> |    |         |
| Revenue                         | \$ 112,982 | \$ 28,285  | \$ 2,261           | \$ | 143,528 |
| Operating expenses              | 71,197     | 23,343     | –                  |    | 94,540  |
| Amortization and other          | 23,506     | 724        | 1,571              |    | 25,801  |
| Segment income before taxes     | \$ 18,279  | \$ 4,218   | \$ 690             | \$ | 23,187  |

  

| Three months ended May 31, 2008 | Investment |            | Trust              |    |         |
|---------------------------------|------------|------------|--------------------|----|---------|
| (\$ thousands)                  | Management | Company    | Operations         |    | Total   |
|                                 | Operations | Operations | Other <sup>1</sup> |    |         |
| Revenue                         | \$ 162,878 | \$ 26,666  | \$ 4,797           | \$ | 194,341 |
| Operating expenses              | 91,350     | 14,318     | –                  |    | 105,668 |
| Amortization and other          | 27,877     | 571        | 2,374              |    | 30,822  |
| Segment income before taxes     | \$ 43,651  | \$ 11,777  | \$ 2,423           | \$ | 57,851  |

Notes to Consolidated Financial Statements

| <b>Six months ended May 31, 2009</b> |   |   |                          |              |
|--------------------------------------|---|---|--------------------------|--------------|
| (\$ thousands)                       | <b>Investment<br/>Management<br/>Operations</b> | <b>Trust<br/>Company<br/>Operations</b> | <b>Other<sup>1</sup></b> | <b>Total</b> |
| Revenue                              | \$ 222,899                                      | \$ 55,337                               | \$ 3,259                 | \$ 281,495   |
| Operating expenses                   | 146,310   | 43,423                                  | –                        | 189,733      |
| Amortization and other               | 47,727  | 1,427                                   | 3,131                    | 52,285       |
| Segment income before taxes          | \$ 28,862                                       | \$ 10,487                               | \$ 128                   | \$ 39,477    |
| Total Assets                         | \$ 1,181,328                                    | \$ 4,995,350                            | \$ –                     | \$ 6,176,678 |

  

| <b>Six months ended May 31, 2008</b> |   |   |                          |              |
|--------------------------------------|---|---|--------------------------|--------------|
| (\$ thousands)                       | <b>Investment<br/>Management<br/>Operations</b> | <b>Trust<br/>Company<br/>Operations</b> | <b>Other<sup>1</sup></b> | <b>Total</b> |
| Revenue                              | \$ 328,106                                      | \$ 53,976                               | \$ 6,605                 | \$ 388,687   |
| Operating expenses                   | 181,773   | 28,703                                  | –                        | 210,476      |
| Amortization and other               | 57,292  | 1,023                                   | 5,396                    | 63,711       |
| Segment income before taxes          | \$ 89,041                                       | \$ 24,250                               | \$ 1,209                 | \$ 114,500   |
| Total Assets                         | \$ 1,188,400                                    | \$ 5,257,031                            | \$ 103,388               | \$ 6,548,819 |

<sup>1</sup> Other revenue relates to S&WHL.

*This report contains forward-looking statements with respect to AGF, including its business operations and strategy, as well as financial performance and condition. Although Management believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause results to differ materially include, among other things, general economic and market factors, including interest rates, business competition, changes in government regulations or in tax laws, and other factors discussed in materials filed with applicable securities regulatory authorities from time to time.*