

**AGF Management Limited**

# **Third Quarter Report**

**FOR THE NINE MONTHS ENDED AUGUST 31, 2004**



What are you doing after work?



dear fellow shareholders

**I am pleased to report that AGF continued to make gains on key financial measures for the three months ended August 31, 2004. Revenue, net income and cash flow from operations experienced higher results compared with the third quarter of fiscal 2003. In addition, average daily mutual fund assets under management rose 4.5 per cent to \$23.4 billion during the quarter.**

For the third quarter of 2004, AGF reported cash flow from operations (before net change in non-cash balances related to operations) of \$62.4 million, or \$0.68 per share diluted, compared with \$55.8 million or \$0.60 per share diluted in 2003, an increase of 11.9 per cent.

Free cash flow increased to \$51.3 million compared with \$46.8 million in the third quarter of 2003, an increase of 9.5 per cent. AGF repurchased 499,800 Class B non-voting shares during the three months ended August 31, 2004. Since the beginning of this fiscal year, AGF has used \$37.4 million of free cash flow to buy back a total of 2.1 million Class B non-voting shares.

Mutual fund performance continues to be strong despite a downturn in equity markets during the quarter, with 64 per cent of AGF fund assets under management performing above median for the one-year period ended August 31, 2004.

We made further progress executing our plans to restructure the sales and marketing platform to better serve

investment advisors. In addition to hiring a new Executive Vice-President, Sales and Marketing named in May, during the quarter we announced the appointment of a Senior Vice-President, National Advisor Sales, who is responsible for building all retail sales relationships.

To build on momentum in private investment management, AGF also completed the acquisition of Cypress Capital Management Ltd., a private client investment management counselling firm based in Vancouver with \$2.0 billion in assets under management. With this acquisition, AGF Private Investment Management now comprises a national network of high-net-worth firms with offices in Montreal, Ottawa, Toronto, Calgary and Vancouver.

Subsequent to the quarter end, AGF Funds Inc. announced that it had received notice from the Ontario Securities Commission ("OSC") as part of an ongoing mutual fund industry compliance review. The OSC stated that the results to date have found no indication of late trading and that the industry, including AGF, now has in place effective measures to prohibit the practice of market timing.

The notice identified some concerns with frequent trading activity that occurred from August 2000 to July 2003. During that time, many large fund companies in Canada began to recognize and deal with the developing practice of frequent trading.

We are cooperating fully with the OSC and are working to resolve all issues as quickly as possible.

We continue to pursue shareholder value by investing in the long-term growth of the business and ensuring we are meeting the needs of our clients. I want to thank all shareholders for their confidence in the future of AGF.



**Blake C. Goldring, CFA**  
**President and Chief Executive Officer**  
**September 28, 2004**

# management's discussion and analysis of financial condition and results of operations

FOR THE THREE MONTHS AND NINE MONTHS ENDED AUGUST 31, 2004

Management's Discussion and Analysis ("MD&A") presents an analysis of the financial condition of AGF Management Limited and its subsidiaries (collectively referred to as "AGF" or the "Corporation") as at August 31, 2004, compared with November 30, 2003, and the results of operations for the three months and nine months ended August 31, 2004, compared with the corresponding periods of 2003. This MD&A should be read in conjunction with the MD&A included in the Corporation's 2003 Annual Report and with the MD&A in the 2004 First and Second Quarter Reports.

## SUMMARY OF CONSOLIDATED OPERATING RESULTS

(\$ MILLIONS, EXCEPT PER SHARE AMOUNTS)							
	Three months ended August 31			Nine months ended August 31			
	2004	2003	% change	2004	2003	2003 (adj.) <sup>4</sup>	% change (adj.) <sup>4</sup>
Revenue	\$ 158.2	\$ 147.4	7.4%	\$ 483.3	\$ 446.9	\$ 434.1	11.3%
Cash flow from operations <sup>1</sup>	\$ 62.4	\$ 55.8	11.9%	\$ 192.4	\$ 158.4	\$ 158.4	21.5%
EBITDA <sup>2</sup>	\$ 76.2	\$ 72.4	5.2%	\$ 230.6	\$ 220.8	\$ 208.0	10.8%
Net income <sup>3,4</sup>	\$ 27.6	\$ 21.8	26.9%	\$ 85.4	\$ 69.8	\$ 58.9	44.9%
Per Share Amounts - Diluted							
Cash flow from operations <sup>1,2</sup>	\$ 0.68	\$ 0.60	13.3%	\$ 2.09	\$ 1.71	\$ 1.71	22.2%
Earnings	\$ 0.30	\$ 0.23	30.4%	\$ 0.93	\$ 0.75	\$ 0.63	47.6%

<sup>1</sup> CASH FLOW FROM OPERATIONS BEFORE NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS.

<sup>2</sup> CASH FLOW FROM OPERATIONS PER SHARE AND EBITDA (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION) ARE NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) FINANCIAL MEASURES. MANAGEMENT BELIEVES THAT SHAREHOLDERS AND INVESTMENT ANALYSTS FIND THESE MEASURES HELPFUL IN ANALYZING AGF RESULTS. CASH FLOW FROM OPERATIONS PER SHARE HAVE BEEN COMPUTED USING THE WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING SIMILAR TO THE EARNINGS PER SHARE ("EPS") CALCULATIONS.

<sup>3</sup> THE CORPORATION'S EFFECTIVE INCOME TAX RATE FOR THE THREE MONTHS AND NINE MONTHS ENDED AUGUST 31, 2004, WERE 16.7% AND 17.5% RESPECTIVELY, AS COMPARED WITH THE STATUTORY RATE OF 36.0%. IN APRIL 2004, THE CORPORATION ACQUIRED NET TAX RELATED BENEFITS OF \$15.7 MILLION, OF WHICH \$3.6 MILLION WERE RECOGNIZED IN THE RESULTS FOR THE THREE MONTHS ENDED AUGUST 31, 2004.

<sup>4</sup> RESULTS FOR THE NINE MONTHS ENDED AUGUST 31, 2003, INCLUDE A CAPITAL GAIN OF \$12.8 MILLION BEFORE TAX, RESULTING FROM THE DISPOSITION OF THE CORPORATION'S INVESTMENT IN AN ASSOCIATED COMPANY. FOR EASE OF COMPARISON WITH THE CURRENT YEAR PERIOD, THE RESULTS SHOWN IN THESE COLUMNS HAVE BEEN ADJUSTED TO REFLECT THE EXCLUSION OF THIS GAIN.

The increases in cash flow, EBITDA and net income for the three and nine months ended August 31, 2004, are predominately due to the increase in average daily mutual fund assets under management ("AUM") from the respective periods of 2003. This is discussed in more detail in the "Investment Management Operations" section of the MD&A. Net income and cash flow from operations for the three-month period ended August 31, 2004, also benefited by \$3.6 million (\$0.04 per share diluted) due to a lower effective income tax rate resulting from the acquisition of tax-related benefits. This is discussed in more detail in the MD&A under the heading "Income Taxes."

Consolidated revenue for the three months ended August 31, 2004, was \$158.2 million, compared with \$147.4 million in the same period of the prior year, an increase of \$10.8 million or 7.4%. Cash flow from operations (before net change in non-cash balances related to operations) amounted to \$62.4 million (\$0.68 per share diluted) for the three months ended August 31, 2004, as compared with \$55.8 million (\$0.60 per share diluted) in the comparable period of the prior year, an increase of \$6.6 million or 11.9%. EBITDA was \$76.2 million for the three months ended August 31, 2004, an increase of 5.2% from the same period in fiscal 2003. Consolidated net income increased 26.9% to \$27.6 million for the three months ended August 31, 2004, as compared with \$21.8 million a year ago. Diluted earnings per share were \$0.30 for the three months ended August 31, 2004, an increase of 30.4% from \$0.23 per share in the same period of the prior year.

Consolidated revenue for the nine months ended August 31, 2004, was \$483.3 million, compared with \$446.9 million in the same period of the prior year, an increase of \$36.4 million or 8.1%. Revenue in the first quarter of 2003 includes a pre-tax capital gain of \$12.8 million resulting from the disposition of the Corporation's investment in an associated company. Excluding this capital gain, revenue for the nine months ended August 31, 2004, increased by \$49.2 million or 11.3%. For the nine months ended August 31, 2004, cash flow from operations amounted to \$192.4 million (\$2.09 per share diluted), compared with \$158.4 million (\$1.71 per share diluted) recorded in the same period of the prior year, an increase of \$34.0 million or 21.5%. EBITDA was \$230.6 million for the nine months ended August 31, 2004, representing an increase of 4.4% from the same period in fiscal 2003. Excluding the capital gain in the prior year period, EBITDA increased 10.8% over the same prior year period. Consolidated net income increased 22.4% to \$85.4 million for the nine months ended August 31, 2004, as compared with \$69.8 million a year ago. Excluding the capital gain in the prior year period, net income increased 44.9% over the same period last year. Diluted earnings per share were \$0.93 for the nine months ended August 31, 2004, an increase of 24.0% from \$0.75 per share in the same period of the prior year. Excluding the capital gain in the prior year period, diluted EPS increased by 47.6% from the prior year period.

## SELECTED QUARTERLY INFORMATION

(\$ MILLIONS, EXCEPT PER SHARE AMOUNTS)				
For the three-month period ended	<b>Aug. 31, 2004</b>	May 31, 2004	Feb. 29, 2004	Nov. 30, 2003
Revenue	<b>\$ 158.2</b>	\$ 166.0	\$ 159.1	\$ 153.9
Cash flow from operations	<b>62.4</b>	68.4	61.6	50.0
EBITDA	<b>76.2</b>	79.0	75.5	63.4
Net income (loss) <sup>1,2,3</sup>	<b>27.6</b>	34.0	23.8	(25.8)
Net Income (Loss) Per Share				
Basic	<b>\$ 0.30</b>	\$ 0.37	\$ 0.26	\$ (0.28)
Diluted	<b>\$ 0.30</b>	\$ 0.37	\$ 0.26	\$ (0.27)
Cash Flow From Operations Per Share				
Basic	<b>\$ 0.69</b>	\$ 0.75	\$ 0.67	\$ 0.55
Diluted	<b>\$ 0.68</b>	\$ 0.74	\$ 0.67	\$ 0.54

(\$ MILLIONS, EXCEPT PER SHARE AMOUNTS)				
For the three-month period ended	Aug. 31, 2003	May 31, 2003	Feb. 28, 2003	Nov. 30, 2002
Revenue	\$ 147.4	\$ 140.8	\$ 158.7	\$ 148.6
Cash flow from operations	55.8	50.8	51.9	57.7
EBITDA	72.4	66.7	81.7	69.0
Net income <sup>3,4</sup>	21.8	19.6	28.4	18.2
Net Income Per Share				
Basic	\$ 0.24	\$ 0.21	\$ 0.31	\$ 0.21
Diluted	\$ 0.23	\$ 0.21	\$ 0.30	\$ 0.19
Cash Flow From Operations Per Share				
Basic	\$ 0.61	\$ 0.55	\$ 0.57	\$ 0.64
Diluted	\$ 0.60	\$ 0.55	\$ 0.56	\$ 0.63

<sup>1</sup> THE CORPORATION'S EFFECTIVE INCOME TAX RATE FOR THE THREE MONTHS ENDED AUGUST 31, 2004, AND THE THREE MONTHS ENDED MAY 31, 2004, WERE 16.7% AND 7.9% RESPECTIVELY, AS COMPARED WITH THE STATUTORY RATE OF 36.0%. IN APRIL 2004, THE CORPORATION ACQUIRED NET TAX RELATED BENEFITS OF \$15.7 MILLION, OF WHICH \$3.6 MILLION AND \$7.1 MILLION WERE RECOGNIZED IN THE THREE MONTHS ENDED AUGUST 31, 2004, AND THE THREE MONTHS ENDED MAY 31, 2004, RESPECTIVELY.

<sup>2</sup> THE FOURTH QUARTER LOSS IN FISCAL 2003 IS DUE TO AN INCREASE IN FUTURE INCOME TAX EXPENSE OF \$40.2 MILLION (\$0.43 PER SHARE DILUTED) RESULTING FROM THE REPEAL OF SCHEDULED FUTURE ONTARIO INCOME TAX RATE REDUCTIONS AND THE INCREASE IN THE ONTARIO TAX RATE FROM 12.5% TO 14.0% EFFECTIVE JANUARY 1, 2004.

<sup>3</sup> THE FOURTH QUARTER NET INCOME (LOSS) IN 2003 AND 2002 INCLUDES INTEGRATION COSTS OF \$4.9 MILLION AND \$5.5 MILLION, RESPECTIVELY.

<sup>4</sup> RESULTS FOR THE THREE MONTHS ENDED FEBRUARY 28, 2003, INCLUDE A CAPITAL GAIN OF \$12.8 MILLION BEFORE TAX, RESULTING FROM THE DISPOSITION OF THE CORPORATION'S INVESTMENT IN AN ASSOCIATED COMPANY.

### **Revenue, Profitability and Seasonality**

The Corporation's revenue is highly correlated to the daily value of mutual fund AUM. As a result, revenues are generally not subject to significant seasonal swings. The Corporation experiences somewhat higher mutual fund sales during the months of February and March as a result of the RSP season, however, the immediate impact of the level of sales on total revenue is not significant. The "Selected Quarterly Information" table on page 4 shows key performance statistics for the past eight quarters.

### **ACQUISITIONS**

One of the Corporation's key strategic priorities is to supplement organic growth with prudent acquisitions.

On January 15, 2004, the Corporation completed the acquisition of 100% of the shares of P.J. Doherty & Associates Co. Ltd. ("P.J. Doherty") for consideration of \$12.2 million, including \$0.3 million of acquisition costs. Cash consideration paid amounted to \$9.4 million with future payments of \$2.8 million due within one year. A portion of these future payments are contingent on the business maintaining certain revenue levels. There is also potential additional consideration that may become payable based on revenue growth during the two-year period subsequent to completion of the acquisition. These amounts are not determinable at the present time. The acquired business, which is based in Ottawa, is an investment counselling firm for high-net-worth individuals and institutions.

On June 30, 2004, the Corporation completed the acquisition of 100% of the shares of Cypress Capital Management Ltd. ("Cypress") for consideration of \$26.1 million, including \$0.1 million of acquisition costs. There is also potential additional consideration due three years after the completion of the acquisition, subject to Cypress achieving certain revenue levels. These amounts are not determinable at the present time. The acquired business, which is based in Vancouver, is an investment counselling firm for high-net-worth individuals and institutions.

### **REVIEW OF OPERATING SEGMENTS**

The Corporation reports on three business segments: investment management operations (formerly called wealth management operations), fund administration operations and trust company operations. The investment management segment provides investment management and advisory services and is responsible for the management and distribution of the AGF investment products and services, including retail mutual fund operations and high-net-worth client investment counselling services. Fund administration offers fund administrative services and transfer agency solutions to institutional clients in Canada and the U.K., including the AGF mutual funds. The trust company segment offers a wide range of trust services and products including GICs, mortgages, investment loans and RSP loans. The "Other" segment includes the results of Smith & Williamson Holdings Limited ("S&WHL"), which are accounted for by the equity method and the interest expense on the Corporation's long-term debt. AGF's reportable segments are strategic business units that offer different products and services.

## INVESTMENT MANAGEMENT OPERATIONS

### REVENUE

Revenue of the investment management operations segment is composed of the following:

(\$ MILLIONS)					
Three months ended August 31	2004		2003		
	Amount	% of total	Amount	% of total	% change
Net management and advisory fees	\$ 107.6	83.2%	\$ 103.8	85.0%	3.6%
Deferred sales charges	8.9	6.9%	9.0	7.4%	(1.1%)
Administration fees and other revenue	12.0	9.3%	9.2	7.5%	30.4%
Investment income	0.8	0.6%	0.1	0.1%	n/m
	<b>\$ 129.3</b>	<b>100.0%</b>	\$ 122.1	100.0%	5.9%

(\$ MILLIONS)					
Nine months ended August 31	2004		2003		
	Amount	% of total	Amount	% of total	% change
Net management and advisory fees	\$ 331.3	84.2%	\$ 302.2	84.1%	9.6%
Deferred sales charges	28.5	7.2%	31.4	8.8%	(9.1%)
Administration fees and other revenue	32.7	8.3%	24.9	6.9%	31.3%
Investment income	1.2	0.3%	0.8	0.2%	50.0%
	<b>\$ 393.7</b>	<b>100.0%</b>	\$ 359.3	100.0%	9.6%

#### Net Management and Advisory Fees

Management and advisory fee revenue, net of distribution fees paid to limited partnerships and other third-party financing entities of \$3.9 million (\$4.5 million in 2003), increased 3.6% to \$107.6 million for the three months ended August 31, 2004, compared with \$103.8 million in the same period in 2003. For the nine months ended August 31, 2004, management and advisory fee revenue, net of distribution fees paid to limited partnerships and other third-party financing entities of \$12.7 million (\$13.9 million in 2003), increased 9.6% to \$331.3 million as compared with \$302.2 million in the same period in 2003. The amount of management and advisory fees is dependent on the level and composition of assets under management. Under the management and investment advisory contracts between the Corporation and each of the mutual funds it manages, the Corporation is entitled to monthly fees based on a specified percentage of the average daily net asset value of the respective fund.

The following table illustrates the composition of the changes in mutual fund AUM during the three and nine months ended August 31, 2004 and 2003:

	Three months ended August 31			Nine months ended August 31		
	2004	2003	% change	2004	2003	% change
(\$ MILLIONS)						
Mutual fund AUM, at May 31	\$ 24,232	\$ 21,872	10.8%			
Mutual fund AUM, at November 30				\$ 23,168	\$ 23,549	(1.6%)
Gross sales of mutual funds	553	459	20.5%	2,052	1,675	22.5%
Redemptions of mutual funds	(1,111)	(939)	18.3%	(3,398)	(3,009)	12.9%
Net mutual fund redemptions	(558)	(480)	16.3%	(1,346)	(1,334)	0.9%
Market appreciation (depreciation) of fund portfolios	(685)	1,595		1,167	772	
Mutual fund AUM, at August 31	\$ 22,989	\$ 22,987	0.0%	\$ 22,989	\$ 22,987	0.0%
Average daily mutual fund AUM for the period	\$ 23,406	\$ 22,401	4.5%	\$ 24,094	\$ 21,932	9.9%
Annualized redemptions (as % of average daily mutual fund AUM)	19.0%	16.8%		18.8%	18.3%	

AGF mutual fund AUM were negatively affected by net redemptions totalling \$558 million during the third quarter of fiscal 2004. Portfolio rebalancing by two institutional clients contributed \$150 million to these net redemptions. Net redemptions, combined with a \$685 million drop in AUM caused by the correction in global equity markets, contributed to a decline of mutual fund AUM from \$24.2 billion at May 31, 2004, to \$23.0 billion at August 31, 2004.

The third quarter of fiscal 2004 saw a continuation of the correction in stock market prices that commenced in the second quarter of 2004. During the three months ended August 31, 2004, the Canadian-dollar-adjusted S&P 500 Index fell 5.1%, the Canadian-dollar-adjusted NASDAQ Index fell 10.9% and the S&P/TSX Composite Index fell 0.5%. During the same period, mutual fund AUM decreased 5.1%. Average daily mutual fund AUM in the third quarter of fiscal 2004 were 4.5% higher than in the third quarter of 2003, directly contributing to a 3.6% increase in net management and advisory fee revenue from the same period a year ago.

During the nine months ended August 31, 2004, the Canadian-dollar-adjusted S&P 500 Index rose 5.7%, the Canadian-dollar-adjusted NASDAQ Index declined 5.0% and the S&P/TSX Composite Index rose 6.6%. Mutual fund AUM decreased by 0.8% over the same period. Average daily mutual fund AUM during the first three quarters of fiscal 2004 were 9.9% higher than in the corresponding period of 2003, directly contributing to a 9.6% increase in net management and advisory fee revenue compared with the same period a year ago.

The impact of the change in the value of the U.S. dollar versus the Canadian dollar on mutual fund AUM has not been significant for the three and nine months ending August 31, 2004.

### High-Net-Worth and Institutional Assets

The aggregate market value of assets managed by AGF for high-net-worth individuals and institutional clients was \$8.1 billion as at August 31, 2004, up from \$5.1 billion at the beginning of the 2004 fiscal year. The increase is primarily due to the acquisitions of P.J. Doherty and Cypress. Institutional and private client assets under management provide the Corporation with a stable revenue stream.

### Deferred Sales Charges

The Corporation receives Deferred Sales Charges (“DSC”) upon redemption of securities sold on the contingent DSC or “back-end” commission basis for which the Corporation financed the selling commissions paid to the dealer. The DSC is generally 5.5% of the original subscription price of the funds purchased if the funds are redeemed within the first two years and declines to zero after seven years. DSC revenue decreased 1.1% from \$9.0 million for the three months ended August 31, 2003, to \$8.9 million for the three months ended August 31, 2004. For the nine months ended August 31, 2004, DSC revenue decreased 9.1% to \$28.5 million from \$31.4 million for the same period in 2003. 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.

## EXPENSES

Expenses for the investment management operations segment were as follows:

	(\$ MILLIONS)						
	Three months ended August 31			Nine months ended August 31			
	2004	2003	% change	2004	2003	% change	
Selling, general and administrative	\$ 25.0	\$ 20.3	23.2%	\$ 77.3	\$ 62.5	23.7%	
Trailing commissions	28.2	25.5	10.6%	85.1	76.1	11.8%	
Investment advisory fees	7.5	8.0	(5.5%)	23.6	23.1	2.2%	
Amortization of DSC	31.5	29.5	6.8%	92.7	87.1	6.4%	
Amortization of customer contracts, relationships and investment advisory contracts	3.6	3.0	20.0%	9.9	9.0	10.0%	
Amortization of property, equipment and other intangible assets	2.3	2.8	(17.9%)	7.0	8.2	(14.6%)	
Writedown of short-term investments	–	–	–	–	0.6	n/m	
	\$ 98.1	\$ 89.1	10.1%	\$ 295.6	\$ 266.6	10.9%	

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses ("SG&A") for the Corporation's investment management operations segment increased by \$4.7 million or 23.2% for the three months ended August 31, 2004, compared with the same period in 2003. For the nine months ended August 31, 2004, SG&A expenses increased by \$14.8 million or 23.7%, compared with the same period in 2003. The increase in SG&A expenses in 2004 is due to costs associated with the continued building of AGF's successful investment management team, the inclusion of the P.J. Doherty and Cypress businesses and non-recurring expenses related to the reorganization of the sales and marketing functions.

### **Trailing Commissions**

Trailing commissions paid to investment dealers are dependent on total AUM levels as well as 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. Trailing commissions increased 10.6% to \$28.2 million for the three months ended August 31, 2004, from \$25.5 million for the three months ended August 31, 2003. Trailing commissions as a percentage of average daily mutual fund AUM increased to 0.482% for the three months ended August 31, 2004, from 0.455% in the comparable 2003 period, due to an increased proportion of mutual fund AUM sold on a front-end basis. For the nine months ended August 31, 2004, trailing commissions increased 11.8% to \$85.1 million, from \$76.1 million for the comparable 2003 period. Trailing commissions as a percentage of average daily mutual fund AUM increased to 0.471% for the nine months ended August 31, 2004, from 0.462% for the comparable period in 2003, also due to changing sales mix.

### **Investment Advisory Fees**

Investment advisory fees decreased 5.5% to \$7.5 million for the three months ended August 31, 2004, from \$8.0 million in the three months ended August 31, 2003. Investment advisory fees as a percentage of the Corporation's average daily mutual fund AUM declined to 0.129% for the three months ended August 31, 2004, from 0.142% in the same period a year ago. Investment advisory fees increased 2.2% to \$23.6 million for the nine months ended August 31, 2004, from \$23.1 million in the same period of 2003. Investment advisory fees as a percentage of the Corporation's average daily mutual fund AUM declined to 0.131% for the nine months ended August 31, 2004, from 0.140% in the same period a year ago. Investment advisory fees paid to external advisors as a percentage of the Corporation's average daily mutual fund AUM are declining as a result of an increasing proportion of mutual fund assets being managed by internal AGF investment managers.

### **Amortization of Deferred Sales Commissions**

Amortization of DSC increased by 6.8% to \$31.5 million for the three months ended August 31, 2004, from \$29.5 million for the three months ended August 31, 2003. For the nine months ended August 31, 2004, amortization of DSC increased by 6.4% to \$92.7 million from \$87.1 million for the nine months ended August 31, 2003. Currently, the Corporation internally finances all selling commissions paid. These selling commissions are capitalized and are amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule. During the three and nine months ended August 31, 2004, the Corporation paid selling commissions of \$11.2 million and \$44.5 million respectively (2003 - \$9.0 million and \$34.6 million).

### Earnings Before Interest, Taxes, Depreciation and Amortization

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the investment management operations segment were \$68.6 million for the three months ended August 31, 2004, an increase of 0.3% from \$68.4 million for the same period of fiscal 2003. EBITDA for the nine months ended August 31, 2004, were \$207.7 million, an increase of 5.4% from \$197.0 million for the comparable period of fiscal 2003.

## FUND ADMINISTRATION OPERATIONS

### REVENUE

Revenue for the fund administration business, operated in Canada as Unisen Inc. ("Unisen") and in the United Kingdom as Investmaster Group Limited ("Investmaster"), increased from \$28.8 million and \$91.5 million for the three and nine months ended August 31, 2003, respectively, to \$31.2 million and \$97.5 million for the three and nine months ended August 31, 2004. The increases are attributable to the acquisition of Consort Information Systems Limited ("CISL") completed in April 2003, which resulted in an expanded customer base.

Unisen, a leading provider of outsourcing solutions, supports the fund information cycle by providing unitholder record-keeping systems and operations administration, client services and fund valuation services. As at August 31, 2004, Unisen served directly or through other third-party administrators more than 170 investment companies and financial institutions.

Investmaster develops and licenses customized investment industry software in the United Kingdom. During the second quarter of fiscal 2003, Investmaster completed the acquisition of CISL, making it the U.K.'s largest supplier of integrated systems for private wealth investment managers. This acquisition is expected to provide significant cost synergies once the integration of the two operations is completed over the next few months. With an expanded customer base and the successful introduction of new products, Investmaster is well positioned to continue to grow its revenue.

### EXPENSES

Expenses for the fund administration operations segment were as follows:

	Three months ended August 31			Nine months ended August 31		
	2004	2003	% change	2004	2003	% change
Selling, general and administrative	\$ 27.2	\$ 26.8	1.5%	\$ 84.8	\$ 84.2	0.7%
Amortization of customer contracts and relationships	1.5	1.5	–	4.5	4.7	(4.3%)
Amortization of property, equipment and other intangible assets	2.5	2.1	19.0%	7.1	5.4	31.5%
	\$ 31.2	\$ 30.4	2.6%	\$ 96.4	\$ 94.3	2.2%

### **Selling, General and Administrative Expenses**

SG&A expenses amounted to \$27.2 million and \$84.8 million for the three and nine months ended August 31, 2004, increasing \$0.4 million and \$0.6 million, respectively, as compared with the corresponding periods in fiscal 2003. The increase in SG&A was due to an increase in Investmaster's SG&A as a result of the acquisition of CISL offset by cost savings resulting from the integration of Unisen's third-party fund administration operations onto one IT platform.

### **Amortization of Customer Contracts and Relationships**

Amortization of customer contracts and relationships amounted to \$1.5 million for the three months ended August 31, 2004, unchanged from the corresponding period in 2003. Amortization of customer contracts and relationships was \$4.5 million for the nine months ended August 31, 2004, decreasing \$0.2 million from the same nine-month period in 2003.

### **Amortization of Property, Equipment and Other Intangible Assets**

Amortization of property, equipment and other intangible assets amounted to \$2.5 million and \$7.1 million for the three and nine months ended August 31, 2004, increasing \$0.4 million and \$1.7 million, respectively, as compared with the corresponding periods in fiscal 2003. These expenses include the amortization over a period of five years of software acquired as part of the Jewelstone Systems Inc. and CISL acquisitions. These acquisitions resulted in the addition of software amounting to \$9.3 million and \$9.5 million, respectively. The increase in amortization of property and equipment in fiscal 2004 is also attributable to higher capital spending incurred in 2003 on leasehold improvements and IT infrastructure in respect of Unisen's head office in Mississauga, Ontario.

### **Earnings Before Interest, Taxes, Depreciation and Amortization**

EBITDA for the fund administration operations segment were \$4.1 million and \$12.7 million for the three and nine months ended August 31, 2004, increasing \$2.0 million and \$5.4 million, respectively, as compared with the corresponding periods in fiscal 2003.

## **TRUST COMPANY OPERATIONS**

AGF Trust Company (the "Trust Company") recorded net income of \$2.1 million for the three months ended August 31, 2004, compared with net income of \$1.2 million for the same period last year. Net income was \$4.7 million for the nine months ended August 31, 2004, compared with net income of \$2.0 million for the comparable period last year. Net income for the nine months ended August 31, 2004, benefited from a gain of \$0.6 million on the sale of securities. Net operating income for the fourth quarter is expected to be slightly lower than for the third quarter, as costs associated with the RSP season begin to be incurred.

Consumer loans, including investment loans and RSP loans, increased 1.6% during the third quarter of fiscal 2004, growing by \$6.3 million to \$404.8 million at August 31, 2004. This represents an increase of \$125.0 million since November 30, 2003. The general allowance for consumer loan losses increased to \$2.5 million at August 31, 2004, from \$1.9 million at November 30, 2003, which is consistent with the portfolio growth and mix. Mortgage balances grew by \$27.9 million during the three months ended August 31, 2004, to \$264.4 million, an increase of \$49.9 million since November 30, 2003. Net investment income for the three months ended August 31, 2004, was \$5.1 million, compared with \$3.8 million for the same period last year. This increase is a reflection of the higher asset levels at the Trust Company. Net investment income for the nine months ended August 31, 2004, was \$14.6 million, compared with \$9.8 million in the same period last year.

The provision for loan losses for the three months ended August 31, 2004, was \$0.2 million compared with \$0.6 million for the same period last year. This decrease is a reflection of an improvement in the credit quality of the RSP loan portfolio. The provision for loan losses for the nine months ended August 31, 2004, was \$2.0 million, an increase of \$0.4 million from the same period last year, due to higher loan volumes.

The Trust Company's financial position and balance sheet remain sound. Total assets have grown to \$771.1 million at August 31, 2004, an increase of 30.6% or \$180.7 million from November 30, 2003. The assets to capital multiple at August 31, 2004, stood at 14.9 times, up from 14.3 times at November 30, 2003, and well within the permitted multiple of 17.5 times.

## OTHER CORPORATE EXPENSES

### Interest Expense

Interest expense (included in the AGF consolidated financial statements segment information note under "Other") decreased to \$1.3 million for the three months ended August 31, 2004, from \$2.3 million in the same period in 2003. Interest expense for the nine months ended August 31, 2004, was \$5.0 million, compared with \$7.5 million for the same period in 2003, a decrease of 33.6%. The decreases are a result of lower average outstanding loan balances compared with the same periods in 2003 and a reduction in interest expense recorded in marking-to-market the interest rate swaps as required following the adoption of CICA Accounting Guideline 13. For details, see Change in Accounting Policy – "Hedging Relationships" in the notes to the third quarter 2004 Consolidated Financial Statements.

Except for the interest rate swap transactions, which fixed the interest rate on an average of \$33.8 million of the outstanding loan balance at 5.53% per annum, interest rates paid on the bank loans were floating based on the prevailing bankers' acceptance rates.

### Income Taxes

The Corporation's effective income tax rates for the three months and nine months ended August 31, 2004, were 16.7% and 17.5%, respectively, as compared with the statutory rate of 36.0%. In April 2004, the Corporation acquired net tax-related benefits of \$15.7 million, of which \$3.6 million (\$0.04 per share diluted) were recognized in the three months ended August 31, 2004, and \$10.7 million (\$0.12 per share diluted) were recognized in the nine months ended August 31, 2004. The remaining benefit is expected to be realized in the fourth quarter of fiscal 2004.

As at August 31, 2004, the future income tax liability was \$274.3 million, as compared with \$285.2 million at November 30, 2003. Approximately half of the future income tax liability balance arose from the deduction for income tax purposes of the full amount of selling commissions paid as compared with the amortization of such selling commissions for accounting purposes over six to eight years. The remaining future income tax liability balance relates primarily to the impact of business combinations where the accounting values of the acquired assets and liabilities differ from their tax values.

### LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operating activities increased from \$55.8 million and \$158.4 million for the three and nine months ended August 31, 2003, respectively, to \$62.4 million and \$192.4 million for the three and nine months ended August 31, 2004. These represent increases of 11.9% and 21.5%, respectively.

The Corporation's free cash flow (defined as cash flow from operations less selling commissions paid) increased from \$46.8 million and \$123.9 million for the three and nine months ended August 31, 2003, respectively, to \$51.3 million and \$147.9 million for the three and nine months ended August 31, 2004. These represent increases of 9.5% and 19.4%, respectively. The Corporation's free cash flow was used primarily to fund the following:

(\$ MILLIONS)	
Nine months ended	August 31, 2004
Repurchase of AGF Class B shares	\$ 37.4
Acquisitions	31.0
Payment of dividends	27.5
Repayment of bank debt and notes payable	12.4
Purchase of property, equipment and other intangible assets	8.1

During the third quarter of fiscal 2004, the Corporation used \$8.7 million of free cash flow to repurchase 499,800 AGF Class B shares at an average price of \$17.49 per share. Since December 1, 2003, the Corporation has used \$37.4 million of free cash flow to repurchase 2,099,800 AGF Class B shares at an average price of \$17.83 per share. This represents approximately 2.3% of the shares outstanding at December 1, 2003.

Consolidated cash amounted to \$98.8 million as at August 31, 2004, as compared with \$88.9 million at November 30, 2003.

The Corporation's long-term debt to equity ratio decreased slightly from 0.13:1 as at November 30, 2003, to 0.12:1 as at August 31, 2004. During the third quarter of fiscal 2004, outstanding bank debt and notes payable declined by \$33.4 million, primarily because of strong free cash flow.

The Corporation has a 10-year prime-rate-based revolving term loan facility to a maximum of \$150.0 million, of which \$78.7 million was available to be drawn as of August 31, 2004. This facility will be available to meet future operational and investment needs. The Corporation anticipates that cash flow from operations, together with the available loan facility, will be sufficient in the foreseeable future to implement its business plan, to finance selling commissions, to satisfy regulatory requirements, to service debt repayment obligations, to meet capital spending needs and to pay quarterly dividends.

Shareholders' equity increased from \$903.3 million at November 30, 2003, to \$930.3 million at August 31, 2004, an increase of 3.0%. The increase is due to the excess of net income over dividends paid and AGF Class B shares repurchased.

## HEDGING ACTIVITIES

To hedge its exposure to fluctuating interest rates, AGF Trust Company has entered into interest rate swap transactions that expire between September 20, 2004, and August 31, 2009. At August 31, 2004, the swaps convert the interest rates paid on \$526.2 million of outstanding deposits from fixed interest rates into floating interest rates. AGF Trust Company would receive \$4.8 million from the counter-parties if the swap transactions were terminated at August 31, 2004.

The Corporation's U.K.-pound-denominated investment in associated company S&WHL has increased from \$108.7 million at November 30, 2003, to \$116.7 million at August 31, 2004, primarily as a result of the appreciation of the U.K. pound versus the Canadian dollar.

To hedge the currency exposure in connection with its investment in S&WHL, the Corporation has entered into foreign exchange forward contracts to sell U.K. £50 million on November 29, 2004, at an average exchange rate of 2.1820, for CDN \$109.1 million. Effective July 29, 2004, the Corporation redesignated 85% of the U.K. £50 million of the contracts as being a hedge of its currency exposure in connection with its investment in S&WHL. The fair value of the designated forward contracts at August 31, 2004, has been recorded in a separate component of shareholders' equity as a foreign currency translation adjustment.

On July 29, 2004, the Corporation also entered into a foreign exchange forward contract to purchase U.K. £7.5 million on November 29, 2004. The fair value of this contract has been recorded in income, effectively offsetting the 15.0% portion of the U.K. £50 million contract that has also been recorded in income.

## RISK FACTORS

The Corporation's risk exposure from foreign exchange, interest rate and capital market movements remains substantially unchanged since the most recent fiscal year-end and readers should refer to the MD&A in the Corporation's 2003 Annual Report.

On September 20, 2004, the Corporation received a notice of potential enforcement proceedings from the Ontario Securities Commission ("OSC") related to the OSC's industry-wide probe of possible frequent trading activity associated with market timing. As a result, the Corporation is exposed to regulatory risk associated with possible remedies. The final outcome of the OSC probe is not known at this time.

## BUSINESS STRATEGY

During the third quarter of fiscal 2004, the Corporation completed a comprehensive strategic review of operations. Based on this review, the Corporation's strategy has been refocused. For the balance of 2004 and 2005, the Corporation has the following strategic priorities:

- Reinforce AGF's investment management excellence
- Build a client-centric organization focused on multi-channel distribution
- Pursue prudent acquisitions to supplement organic growth
- Undertake a disciplined review of support entities to assess the financial and strategic contribution of each business to shareholder value.

The Corporation has taken strides to ensure the best personnel are in place to execute this new strategic direction. During the second quarter of fiscal 2004, the Corporation reorganized the sales and marketing function into one department and appointed a new Executive Vice-President of Sales and Marketing. During the third quarter of fiscal 2004, the Corporation appointed a new Senior Vice-President, National Advisor Sales, who will lead a national sales team responsible for driving AGF's retail sales relationships across Canada.

The revitalized sales and marketing function is in the early stages of implementing its detailed tactical plan, which is expected to have a positive influence on gross sales during the 2005 RSP season.

AGF Private Investment Management Limited (PIM) will endeavor to maximize the value of recent acquisitions. In the first quarter of 2004, AGF acquired Ottawa-based P.J. Doherty, and during the third fiscal quarter, AGF completed the acquisition of Vancouver-based Cypress. Both firms provide investment counselling services to high-net-worth individuals and institutions. With the acquisition of P.J. Doherty and Cypress, PIM has \$4.3 billion in assets under management and a national presence. In addition to the new locations in Vancouver and Ottawa, PIM has locations in Montreal, Toronto and Calgary, and is well-positioned to achieve organic growth by capitalizing on enhanced investment management expertise and client service capabilities. The centralization of administration across these entities is expected to generate operational efficiencies.

The Corporation will continue to position itself, through Unisen, to seize new business opportunities resulting from the trend in the investment fund industry towards outsourcing of administrative functions. The Fund Administration business segment will be reviewed with the aim of ensuring that optimal shareholder value is achieved.

## OUTLOOK

Net management fees are directly impacted by market appreciation or depreciation of fund portfolios and net fund sales or redemptions. Market stability should result in revenue and earnings from the Corporation's core investment management operations exceeding 2003 levels for the balance of fiscal 2004.

Although the Corporation continued to experience net mutual fund redemptions during the third quarter of fiscal 2004, management believes that the following factors position the Corporation for future asset growth:

- A revitalized sales and marketing function. The centralization of all aspects of sales and marketing will allow a more strategic and client-centric approach to bolstering advisor relationships. Results are expected during the 2005 RSP season.
- The Corporation acquired 100% of P.J. Doherty in January 2004 and 100% of Cypress in June 2004. These acquisitions complete a national network of private investment management firms and create a strong platform for organic growth.
- Continued strong investment performance of the AGF fund portfolios. For the one-year period ended August 31, 2004, 64% of ranked AGF fund assets under management performed above median.
- Well-positioned products. The Harmony Pools, AGF's highly successful wrap product, continues to generate strong asset inflows and management believes it will continue to be a leading product in this market segment.

Stock market returns are expected to be moderate for the remainder of 2004 as investors deal with uncertainty. The outcome of the election in the United States, instability in Iraq and the economic impact of rising interest rates and higher oil prices are the most significant factors. However, strong corporate earnings, global economic growth and low inflation should bolster returns from global equity markets in 2005.

Unisen completed the migration of all the remaining third-party clients onto the Unitrax system in the third quarter. While the continuing consolidation of the investment fund industry is expected to negatively impact short-term revenue growth opportunities, Unisen is pursuing a number of initiatives, including new business development and service quality programs, to diversify its revenue base.

Management expects industry consolidation to continue, as companies seek to achieve greater economies of scale and benefit from access to national distribution channels.

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains certain forward-looking statements that are made based on management's judgment and expectations but are inherently subject to risks and uncertainties beyond the Corporation's control. These risks and uncertainties include economic conditions, market fluctuations, interest rate and foreign exchange movements, political events, regulatory change and competitive developments. Actual results may differ materially from those anticipated in the forward-looking statements.

## AGF MANAGEMENT LIMITED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS)

	<b>August 31, 2004</b> (UNAUDITED)	November 30, 2003
<b>ASSETS</b>		
Current Assets		
Cash and term deposits	<b>\$ 9,478</b>	\$ 5,838
Short-term investments	<b>20,522</b>	19,065
Accounts receivable and prepaid expenses	<b>58,394</b>	55,835
Income taxes recoverable	<b>213</b>	–
	<b>88,607</b>	80,738
Investment in associated company	<b>116,708</b>	108,692
Other investments	<b>5,668</b>	8,811
Management contracts	<b>473,670</b>	473,670
Customer contracts, relationships and investment advisory contracts, net of accumulated amortization	<b>129,042</b>	101,918
Deferred selling commissions, net of accumulated amortization	<b>346,620</b>	394,839
Property, equipment and other intangible assets, net of accumulated amortization	<b>53,943</b>	59,769
Goodwill	<b>160,794</b>	148,165
Other assets	<b>4,913</b>	–
	<b>1,379,965</b>	1,376,602
Trust Company Assets		
Cash and term deposits	<b>89,343</b>	83,067
Accounts receivable and other assets	<b>9,001</b>	7,216
Investments	<b>3,577</b>	5,793
Mortgages and consumer loans	<b>669,212</b>	494,318
	<b>771,133</b>	590,394
	<b>\$ 2,151,098</b>	\$ 1,966,996

## AGF MANAGEMENT LIMITED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS)

	<b>August 31, 2004</b>	November 30, 2003
	(UNAUDITED)	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	<b>\$ 55,828</b>	\$ 46,335
Long-term debt due within one year (note 5)	<b>47,295</b>	41,371
Income taxes payable	<b>–</b>	18,148
	<b>103,123</b>	105,854
Long-term debt (note 5)	<b>108,830</b>	114,114
Participation units	<b>6,157</b>	6,157
Future income taxes	<b>274,307</b>	285,207
Leasehold inducements	<b>4,202</b>	1,493
Other liabilities	<b>1,593</b>	–
	<b>498,212</b>	512,825
Trust Company Liabilities		
Accounts payable and accrued liabilities	<b>17,257</b>	15,661
Deposits	<b>705,322</b>	535,200
	<b>722,579</b>	550,861
Shareholders' Equity		
Capital stock (note 4)	<b>394,011</b>	395,168
Retained earnings	<b>535,798</b>	506,274
Foreign currency translation adjustment	<b>498</b>	1,868
	<b>930,307</b>	903,310
	<b>\$ 2,151,098</b>	\$ 1,966,996

## AGF MANAGEMENT LIMITED CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	Three months ended August 31		Nine months ended August 31	
	2004	2003	2004	2003
Revenue				
Net management and advisory fees	\$ 107,556	\$ 103,785	\$ 331,289	\$ 302,184
Administration fees and other revenue	30,582	25,231	92,290	73,930
Deferred sales charges	8,916	9,014	28,532	31,371
Gain on sale of investment in associated company	–	–	–	12,758
Investment income	810	101	1,207	879
	<b>147,864</b>	138,131	<b>453,318</b>	421,122
Trust Company interest, dividends and administration fees	10,376	9,267	30,015	25,804
	<b>158,240</b>	147,398	<b>483,333</b>	446,926
Expenses				
Selling, general and administrative	39,635	35,058	123,247	106,178
Trailing commissions	28,217	25,502	85,052	76,075
Investment advisory fees	7,532	7,974	23,622	23,107
Amortization of deferred selling commissions	31,478	29,472	92,703	87,110
Amortization of customer contracts, relationships and investment advisory contracts	5,025	4,492	14,371	13,646
Amortization of property, equipment and other intangible assets	4,866	5,444	14,111	15,258
Interest expense	1,317	2,336	4,986	7,512
Writedown of short-term investments	–	–	–	643
	<b>118,070</b>	110,278	<b>358,092</b>	329,529
Trust Company Expenses				
Interest on deposits	4,402	4,699	12,807	14,047
General and administrative	2,383	1,483	6,839	5,133
Provision for loan losses	206	569	2,006	1,634
	<b>6,991</b>	6,751	<b>21,652</b>	20,814
	<b>125,061</b>	117,029	<b>379,744</b>	350,343
Income before income taxes	<b>33,179</b>	30,369	<b>103,589</b>	96,583
Income Taxes				
Current	12,927	15,188	35,991	44,333
Future	(7,376)	(6,590)	(17,819)	(17,524)
	<b>5,551</b>	8,598	<b>18,172</b>	26,809
Net income for the period	\$ 27,628	\$ 21,771	\$ 85,417	\$ 69,774
Earnings Per Share				
Basic	\$ 0.30	\$ 0.24	\$ 0.93	\$ 0.76
Diluted	\$ 0.30	\$ 0.23	\$ 0.93	\$ 0.75

## AGF MANAGEMENT LIMITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(IN THOUSANDS OF DOLLARS)  
(UNAUDITED)

	Three months ended August 31		Nine months ended August 31	
	2004	2003	2004	2003
Retained earnings, beginning of period	\$ 524,793	\$ 531,001	\$ 506,274	\$ 495,819
Net income for the period	27,628	21,771	85,417	69,774
	552,421	552,772	591,691	565,593
Deduct:				
Dividends on Class A and Class B shares	10,053	6,921	27,487	19,742
Excess paid over average issue price of Class B shares purchased for cancellation	6,570	–	28,406	–
	16,623	6,921	55,893	19,742
Retained earnings, end of period	\$ 535,798	\$ 545,851	\$ 535,798	\$ 545,851

## AGF MANAGEMENT LIMITED

### CONSOLIDATED STATEMENTS OF CASH FLOW

(IN THOUSANDS OF DOLLARS)  
(UNAUDITED)

	Three months ended August 31		Nine months ended August 31	
	2004	2003	2004	2003
<b>Operating Activities</b>				
Net income for the period	\$ 27,628	\$ 21,771	\$ 85,417	\$ 69,774
Items not affecting cash				
Amortization of deferred selling commissions	31,478	29,472	92,703	87,110
Amortization of customer contracts, relationships and investment advisory contracts	5,025	4,492	14,371	13,646
Amortization of property, equipment and other intangible assets	5,162	5,700	14,977	15,978
Future income taxes	(7,376)	(6,590)	(17,819)	(17,524)
Gain on sale of investment in associated company	–	–	–	(12,758)
Mark-to-market on swap transactions	(224)	–	(252)	–
Other	743	945	3,035	2,204
	<b>62,436</b>	<b>55,790</b>	<b>192,432</b>	<b>158,430</b>
Net (increase) decrease in non-cash balances related to operations	<b>19,293</b>	<b>10,999</b>	<b>(23,003)</b>	<b>(8,120)</b>
	<b>81,729</b>	<b>66,789</b>	<b>169,429</b>	<b>150,310</b>
<b>Financing Activities</b>				
Net change in Class B shares	(7,903)	820	(34,763)	5,467
Dividends	(10,053)	(6,921)	(27,487)	(19,742)
Decrease in bank loan	(32,850)	(45,850)	(9,550)	(74,050)
Decrease in notes payable	(522)	(927)	(2,827)	(3,709)
Increase in leasehold inducements	–	160	2,959	160
Increase (decrease) in Trust Company deposits	47,594	(31,049)	170,122	4,015
	<b>(3,734)</b>	<b>(83,767)</b>	<b>98,454</b>	<b>(87,859)</b>
<b>Investing Activities</b>				
Deferred selling commissions paid	(11,170)	(8,979)	(44,484)	(34,551)
Investment in associated company	–	–	–	(604)
Acquisition of third-party administration business	–	6,555	–	6,555
Acquisition of subsidiaries, net of cash acquired	(10,778)	–	(19,761)	(7,530)
Purchase of property, equipment and other intangible assets	(2,465)	(4,248)	(8,070)	(8,066)
Sale (purchase) of investments	3,870	(187)	(10,968)	213
Sale (purchase) of investments – Trust Company	142	(37)	2,216	1,378
Increase in Trust Company mortgages and consumer loans	(34,371)	(4,434)	(176,900)	(95,610)
	<b>(54,772)</b>	<b>(11,330)</b>	<b>(257,967)</b>	<b>(138,215)</b>
Increase (decrease) in cash and cash equivalents during the period	<b>23,223</b>	<b>(28,308)</b>	<b>9,916</b>	<b>(75,764)</b>
Balance of cash and cash equivalents, beginning of period	<b>75,598</b>	<b>77,369</b>	<b>88,905</b>	<b>124,825</b>
Balance of cash and cash equivalents, end of period	\$ <b>98,821</b>	\$ 49,061	\$ <b>98,821</b>	\$ 49,061
<b>Represented by:</b>				
Cash and term deposits	\$ 9,478	\$ 7,450		
Trust Company cash and term deposits	89,343	41,611		
	\$ <b>98,821</b>	\$ 49,061		

# notes to consolidated financial statements

FOR THE THREE MONTHS AND NINE MONTHS ENDED AUGUST 31, 2004 AND AUGUST 31, 2003 (UNAUDITED)  
(IN DOLLARS, EXCEPT AS OTHERWISE STATED)

These unaudited interim consolidated financial statements of AGF Management Limited ("AGF" or "Corporation") have been prepared in accordance with Canadian generally accepted accounting principles using the same significant accounting policies as AGF's consolidated financial statements for the year ended November 30, 2003, except for the change in accounting policy described in note 1. These financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended November 30, 2003, as set out in AGF's 2003 Annual Report. Certain comparative amounts have been reclassified to conform with the current period's presentation. At December 1, 2003, cash and cash equivalents were reclassified to include cash and term deposits and exclude short-term investments.

## 1.

### CHANGE IN ACCOUNTING POLICY

#### Hedging Relationships

On December 1, 2003, AGF adopted CICA Accounting Guideline 13, "Hedging Relationships" ("AcG 13"). AcG 13 addresses the identification, designation, documentation and assessment of effectiveness of hedging transactions for the purpose of applying hedge accounting.

Under this new guideline the Corporation is required to document its hedging transactions and demonstrate that the hedges are sufficiently effective in order to use hedge accounting for positions hedged with derivatives.

The Corporation reviewed its hedging relationships as of December 1, 2003, and determined that its cross-currency swap transaction and certain interest rate swap transactions do not qualify for hedge accounting. As such, the Corporation recorded these swaps at fair value, which increased both assets and liabilities as at December 1, 2003, by \$1.4 million. The deferred asset is being amortized over the remaining term of the swaps and the expense of such amortization for the nine months ended August 31, 2004, was \$121,000 (2003 – nil). A credit of \$252,000 (2003 – nil) on the mark-to-market of the swap transactions has been netted against interest expense for the nine months ended August 31, 2004. In each subsequent reporting period, the change in fair value of these swaps will be recorded as income or expense for the period.

Certain other interest rate swaps entered into by AGF Trust Company are designated as hedges, and the interest payable or receivable under the swap transactions is accrued and recorded as interest expense.

The foreign exchange forward contracts used to hedge the investment in Smith & Williamson Holdings Limited ("S&WHL") are designated as hedges and qualify for hedge accounting. The unrealized foreign exchange gains or losses on the forward contracts are recorded in a separate component of shareholders' equity as a foreign currency translation adjustment.

## 2.

### ACQUISITION OF P.J. DOHERTY & ASSOCIATES CO. LTD.

On January 15, 2004, the Corporation completed the acquisition of 100% of the shares of P.J. Doherty & Associates Co. Ltd. ("P.J. Doherty") for consideration of \$12.2 million, including \$0.3 million of acquisition costs. The acquisition is being accounted for by the purchase method of accounting, with the results of operations of P.J. Doherty included in the consolidated financial statements from the date of acquisition. Cash consideration paid amounted to \$9.4 million, with future payments of \$2.8 million due within one year. A portion of these future payments are contingent on the business maintaining certain revenue levels. There is also potential additional consideration that may become payable based on revenue growth during the two-year period subsequent to completion of the acquisition. These amounts are not determinable at the present time. The acquired business, which is based in Ottawa, is an investment counselling firm for high-net-worth individuals and institutions. The value attributed to customer contracts is being amortized on a straight-line basis over 15 years.

The fair value of the net assets acquired and consideration paid are summarized as follows:

	<b>\$(000s)</b>	
<b>Net Assets Acquired</b>		
Cash	<b>\$</b>	<b>468</b>
Other assets		<b>318</b>
Customer contracts		<b>13,015</b>
Goodwill		<b>3,360</b>
Current liabilities		<b>(233)</b>
Future income tax		<b>(4,701)</b>
	<b>\$</b>	<b>12,227</b>
<b>Consideration Paid (including acquisition costs)</b>		
Cash	<b>\$</b>	<b>9,451</b>
Future payments due within one year		<b>2,776</b>
	<b>\$</b>	<b>12,227</b>

### 3.

#### ACQUISITION OF CYPRESS CAPITAL MANAGEMENT LTD.

On June 30, 2004, the Corporation completed the acquisition of 100% of the shares of Cypress Capital Management Ltd. ("Cypress") for consideration of \$26.1 million, including \$0.1 million of acquisition costs. The acquisition is being accounted for by the purchase method of accounting with the results of operations of Cypress included in the consolidated financial statements from the date of the acquisition. In addition to the future payments detailed below, there is also potential additional consideration due three years after the completion of the acquisition, subject to Cypress achieving certain revenue levels. These amounts are not determinable at the present time. The acquired business, which is based in Vancouver, is an investment counselling firm for high-net-worth individuals and institutions. The value attributed to customer contracts is being amortized on a straight-line basis over 15 years.

The fair value of the net assets acquired and consideration paid are summarized as follows:

	<b>\$(000s)</b>	
<b>Net Assets Acquired</b>		
Cash	<b>\$</b>	<b>351</b>
Other assets		<b>1,625</b>
Customer contracts		<b>28,480</b>
Goodwill		<b>7,269</b>
Current liabilities		<b>(1,351)</b>
Future income tax		<b>(10,287)</b>
	<b>\$</b>	<b>26,087</b>
<b>Consideration Paid (including acquisition costs)</b>		
Cash	<b>\$</b>	<b>7,887</b>
285,553 Class B shares issued		<b>5,200</b>
Future payments due on June 30, 2005		<b>6,500</b>
Future payments due on June 30, 2006		<b>6,500</b>
	<b>\$</b>	<b>26,087</b>

## 4. CAPITAL STOCK

### (a) Authorized Capital

The authorized capital of AGF consists of an unlimited number of Class B Non-Voting Shares ("Class B shares") and an unlimited number of Class A Voting Common Shares ("Class A shares"). The Class B shares are listed for trading on the Toronto Stock Exchange.

### (b) Movement During the Period

The movement in capital stock during the nine months ended August 31, 2004, is summarized as follows:

	Number of shares issued	Amount \$(000s)
Class B shares		
Balance, November 30, 2003	92,214,723	\$ 395,168
Issued on acquisition of a subsidiary	285,553	5,200
Issued through dividend reinvestment plan	9,479	166
Stock options exercised	321,582	2,509
Purchased for cancellation	(2,099,800)	(9,032)
Balance, August 31, 2004	90,731,537	\$ 394,011
Class A shares		
Balance, November 30, 2003 and August 31, 2004	57,600	-
Total capital stock		\$ 394,011

### (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. Present approval for such purchases extends through to February 2005.

**(d) Stock Option Plans**

**Stock-Based Compensation**

On December 1, 2002, AGF adopted the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" for stock options granted on or after that date. Under this standard, the fair value of stock options are determined on their grant date and recorded as compensation expense over the period that the stock options vest. During the nine months ended August 31, 2004, the Corporation granted 770,000 options and recorded \$1,316,000 in compensation expense in respect of the options granted during that period. The fair value of options granted during the period has been estimated at between \$2.72 and \$5.41 per share using the Black-Scholes option-pricing model. The following assumptions were used to determine the fair value of the options on the date of grant:

Risk-free interest rate	4.09%
Expected dividend yield	1.82%
Expected share price volatility	33.19%
Option term	7.0 to 10.0 years

The options vest over a three- to four-year period and have terms ranging from seven to 10 years. The Corporation or employee is required to meet performance criteria for certain of the options to vest.

The movement in stock options during the nine months ended August 31, 2004, is summarized as follows:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Class B Share Options		
Balance outstanding, November 30, 2003	<b>3,270,080</b>	<b>\$ 16.84</b>
Options granted	<b>770,000</b>	<b>\$ 18.89</b>
Options cancelled	<b>(129,811)</b>	<b>\$ 22.25</b>
Options exercised	<b>(321,582)</b>	<b>\$ 7.80</b>
Balance outstanding, August 31, 2004	<b>3,588,687</b>	<b>\$ 17.89</b>

Stock options to purchase an aggregate maximum of 6,596,088 Class B shares could have been granted as at August 31, 2004.

## 5. LONG-TERM DEBT

\$(000s)	August 31, 2004	November 30, 2003
Bank Loans		
Fully amortizing term loan	\$ 44,250	\$ 70,800
Revolving term loan	71,300	54,300
Notes payable due November 22, 2004	4,354	4,970
Notes payable due April 30, 2013	19,616	21,230
Consort Information Systems Limited payment due January 31, 2006	1,067	1,067
Cypress payments due June 30, 2005	6,500	–
Cypress payments due June 30, 2006	6,500	–
Capital lease obligations	2,346	2,883
Loan notes due September 30, 2004	192	235
	<b>156,125</b>	155,485
Less: amount included in current liabilities	47,295	41,371
	<b>\$ 108,830</b>	\$ 114,114

### Bank Loans

#### Fully Amortizing Term Loan

As at August 31, 2004, the Corporation has drawn the facility in the form of a 91-day bankers' acceptance ("BA") at an effective interest rate of 2.55% per annum.

#### Revolving Term Loan

As at August 31, 2004, the Corporation has drawn \$71.3 million against the available loan amount of \$150.0 million in the form of three- to 91-day BAs at an effective interest rate of 2.46% per annum.

#### Cypress Payments

These future payments relate to the acquisition of Cypress (see note 3). These payments are non-interest bearing and unsecured.

## 6.

**INTEREST RATE SWAP AND FOREIGN EXCHANGE HEDGE TRANSACTIONS**

To hedge its currency exposure in connection with its investment in U.K.-based S&WHL, an associated company, the Corporation entered into foreign exchange forward contracts to sell U.K. £50,000,000 on November 29, 2004, at an average exchange rate of 2.1820 for CDN \$109,102,000. Effective July 29, 2004, the Corporation redesignated 85% of the U.K. £50,000,000 as being a hedge of its currency exposure in connection with its investment in S&WHL. The fair value of the designated forward contracts at August 31, 2004, has been recorded in a separate component of shareholders' equity as a foreign currency translation adjustment.

On July 29, 2004, the Corporation also entered into a foreign exchange forward contract to purchase U.K. £7,500,000 on November 29, 2004, at an exchange rate of 2.3902 for CDN \$17,927,000. The fair value of this contract has been recorded in income, effectively offsetting the 15% portion of the U.K. £50,000,000 contract, which has also been recorded in income.

To hedge its exposure to fluctuating interest rates, AGF Trust Company has entered into interest rate swap transactions with three Canadian chartered banks as noted below. The swap transactions expire between September 20, 2004, and August 31, 2009, and involve the exchange of either the one-month bankers' acceptance rate or the three-month bankers' acceptance rate, to receive fixed interest rates. As at August 31, 2004, the aggregate notional amount of the swap transactions was \$526,200,000. The aggregate fair value of the swap transactions, which represents the amount that would be received by AGF Trust Company if the transactions were terminated at August 31, 2004, was \$4,801,000.

\$(000s)		
Notional amount of swap	Maturity date	Fixed interest rate received
\$ 68,000	2004	2.63% – 4.41%
63,500	2005	3.06% – 4.17%
87,000	2006	2.35% – 4.57%
118,700	2007	3.00% – 5.11%
117,000	2008	3.17% – 4.43%
72,000	2009	3.49% – 4.59%

## 7. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Three months ended August 31		Nine months ended August 31	
	2004	2003	2004	2003
Interest payments	\$ 5,744	\$ 7,060	\$ 17,868	\$ 21,639
Income tax paid, net of amounts recovered	\$ 45	\$ 9,371	\$ 46,092	\$ 44,653

## 8. SEGMENT INFORMATION

AGF has three reportable segments: investment management operations, fund administration operations and trust company operations. The investment management segment provides investment management and advisory services and is responsible for the management and distribution of the AGF investment products. Fund administration offers fund administrative services and transfer agency solutions to institutional clients including the Corporation's group of mutual funds. AGF Trust Company offers a wide range of trust services, including GICs, mortgages, investment loans and RRSP loans. AGF's reportable segments are strategic business units that offer different products and services.

The results of the reportable segments are based upon 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 2003 annual financial statements.

\$(000s)						
For the three months ended August 31, 2004	<b>Investment management operations</b>	<b>Fund administration operations</b>	<b>Trust company operations</b>	<b>Other</b>	<b>Inter- segment elimination</b>	<b>Total</b>
External revenue	\$ 128,190	\$ 19,614	\$ 10,376	\$ 60	\$ -	\$ 158,240
Intersegment revenue	1,098	11,634	297	-	(13,029)	-
Segment revenue	<b>129,288</b>	<b>31,248</b>	<b>10,673</b>	<b>60</b>	<b>(13,029)</b>	<b>158,240</b>
Operating expenses	60,712	27,173	7,223	1,317	(13,029)	83,396
Amortization	37,380	3,989	296	-	-	41,665
Segment income (loss) before taxes	<b>\$ 31,196</b>	<b>\$ 86</b>	<b>\$ 3,154</b>	<b>\$ (1,257)</b>	<b>\$ -</b>	<b>\$ 33,179</b>
<i>Included in External Revenue</i>						
Interest revenue	\$ 201	\$ 14	\$ 9,992	\$ -	\$ -	\$ 10,207
Total assets	<b>\$ 1,082,909</b>	<b>\$ 180,348</b>	<b>\$ 771,133</b>	<b>\$ 116,708</b>	<b>\$ -</b>	<b>\$ 2,151,098</b>

\$(000s)						
For the three months ended August 31, 2003	Investment management operations	Fund administration operations	Trust company operations	Other	Inter- segment elimination	Total
External revenue	\$ 120,920	\$ 17,616	\$ 9,267	\$ (405)	\$ -	\$ 147,398
Intersegment revenue	1,212	11,225	288	-	(12,725)	-
Segment revenue	122,132	28,841	9,555	(405)	(12,725)	147,398
Operating expenses	53,769	26,787	7,194	2,340	(12,725)	77,365
Amortization	35,319	3,637	256	452	-	39,664
Segment income (loss) before taxes	\$ 33,044	\$ (1,583)	\$ 2,105	\$ (3,197)	\$ -	\$ 30,369
<i>Included in External Revenue</i>						
Interest revenue	\$ 161	\$ 22	\$ 8,792	\$ -	\$ -	\$ 8,975
Total assets	\$ 1,123,446	\$ 167,950	\$ 529,244	\$ 107,039	\$ -	\$ 1,927,679

\$(000s)						
For the nine months ended August 31, 2004	<b>Investment management operations</b>	<b>Fund administration operations</b>	<b>Trust company operations</b>	<b>Other</b>	<b>Inter- segment elimination</b>	<b>Total</b>
External revenue	\$ 390,390	\$ 60,917	\$ 30,015	\$ 2,011	\$ –	\$ 483,333
Intersegment revenue	3,310	36,628	875	–	(40,813)	–
Segment revenue	<b>393,700</b>	<b>97,545</b>	<b>30,890</b>	<b>2,011</b>	<b>(40,813)</b>	<b>483,333</b>
Operating expenses	<b>186,034</b>	<b>84,804</b>	<b>22,682</b>	<b>4,986</b>	<b>(40,813)</b>	<b>257,693</b>
Amortization	<b>109,583</b>	<b>11,602</b>	<b>866</b>	–	–	<b>122,051</b>
Segment income (loss) before taxes	<b>\$ 98,083</b>	<b>\$ 1,139</b>	<b>\$ 7,342</b>	<b>\$ (2,975)</b>	<b>\$ –</b>	<b>\$ 103,589</b>
<i>Included in External Revenue</i>						
Interest revenue	<b>\$ 594</b>	<b>\$ 14</b>	<b>\$ 28,571</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 29,179</b>
Total assets	<b>\$1,082,909</b>	<b>\$ 180,348</b>	<b>\$ 771,133</b>	<b>\$ 116,708</b>	<b>\$ –</b>	<b>\$2,151,098</b>

\$(000s)						
For the nine months ended August 31, 2003	Investment management operations	Fund administration operations	Trust company operations	Other	Inter- segment elimination	Total
External revenue	\$ 355,653	\$ 53,008	\$ 25,804	\$ 12,461	\$ –	\$ 446,926
Intersegment revenue	3,609	38,501	891	–	(43,001)	–
Segment revenue	359,262	91,509	26,695	12,461	(43,001)	446,926
Operating expenses	162,294	84,151	22,588	7,577	(43,001)	233,609
Amortization	104,280	10,140	720	1,594	–	116,734
Segment income (loss) before taxes	<b>\$ 92,688</b>	<b>\$ (2,782)</b>	<b>\$ 3,387</b>	<b>\$ 3,290</b>	<b>\$ –</b>	<b>\$ 96,583</b>
<i>Included in External Revenue</i>						
Interest revenue	\$ 675	\$ 88	\$ 24,715	\$ 5	\$ –	\$ 25,483
Total assets	<b>\$ 1,123,446</b>	<b>\$ 167,950</b>	<b>\$ 529,244</b>	<b>\$ 107,039</b>	<b>\$ –</b>	<b>\$ 1,927,679</b>

## 9.

### **SUBSEQUENT EVENT**

On September 20, 2004, the Corporation received a notice of potential enforcement proceedings from the Ontario Securities Commission ("OSC") related to the OSC's industry-wide probe of possible frequent trading activity associated with market timing. As a result, the Corporation is exposed to regulatory risk associated with possible remedies. The final outcome of the OSC probe is not known at this time.



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