

# AGF is changing

AGF Management Limited

Annual Report **2004**



What are you doing after work?

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for the better

At AGF, we've taken change to heart. In this year's annual report, we profile our goals, our actions and the people who are driving and implementing change across the AGF organization. Building on a proud history and a solid foundation, AGF is changing with the times, for the future, for the better. /

## corporate profile

Founded in 1957, AGF is one of Canada's premier investment management companies. We are in business to deliver excellence in money management, a wide spectrum of products and outstanding client service.

With \$31.4 billion in total assets under management, AGF serves more than one million investors with offerings across the wealth continuum. Our family of over 50 mutual funds offers options across investment styles, regions and sectors to meet the goals of any investor. AGF's products and services also include AGF Harmony tailored investment program, AGF Private Investment Management and AGF Trust GICs, loans and mortgages.

Our relationship with more than 40,000 investment advisors across Canada gives us a broad distribution platform that includes full-service brokerages, planning firms, banks, discount brokerages and insurance companies.

An independent, Canadian-owned company, AGF Management Limited is listed on the Toronto Stock Exchange under the symbol AGF.nv.

To learn more, visit us at [AGF.com](http://AGF.com). /

## message from the chairman

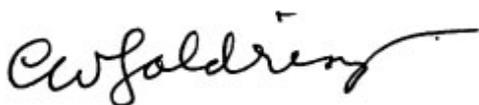
Two-thousand-and-four was a year of challenge and change for AGF. In the face of adversity, we have emerged confident in our strong core business with a team committed to winning.

Today's business environment is very different from when we founded this company 47 years ago. Throughout our history, AGF has successfully changed with the times and often ahead of the times. As an independent and financially strong wealth management company, we have the agility to meet challenges and adapt for the future. What will never change is our commitment to delivering value and building growth — both for our shareholders and our mutual fund investors.

Our success depends on providing excellence in money management and service to advisors and the investors they represent. We invest with consistency. We invest with expertise, experience and skill. We invest for the long term.

It was an active year for our Board, as we approved a sweeping new strategic plan for the company and reorganized our structure to ensure that all committee chairs are independent from management. We are committed to fostering success at all levels of AGF.

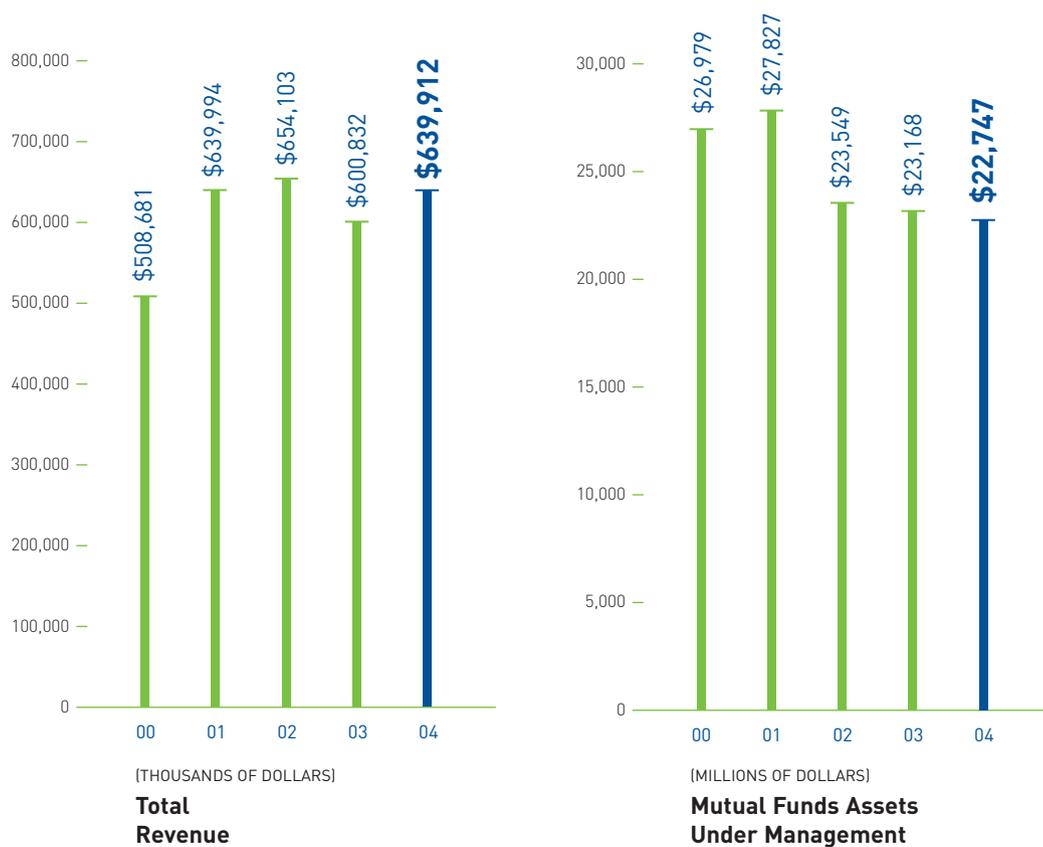
Change means opportunity, and we expect the initiatives we undertook in 2004 to yield results in the year ahead. /



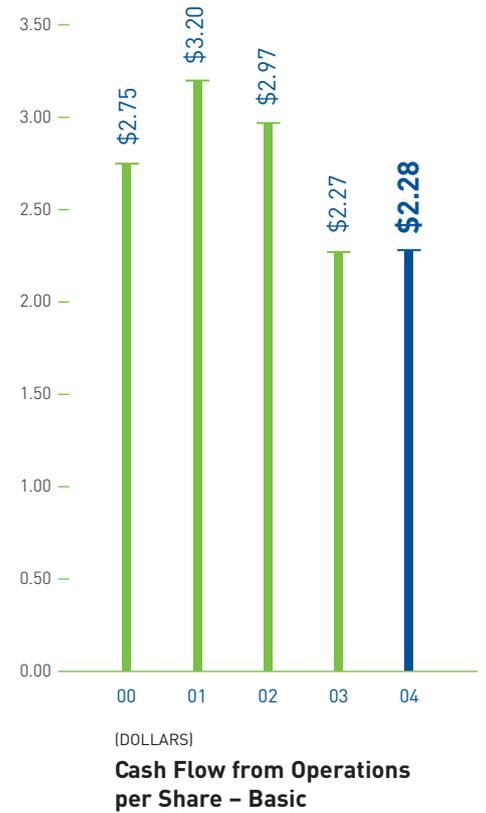
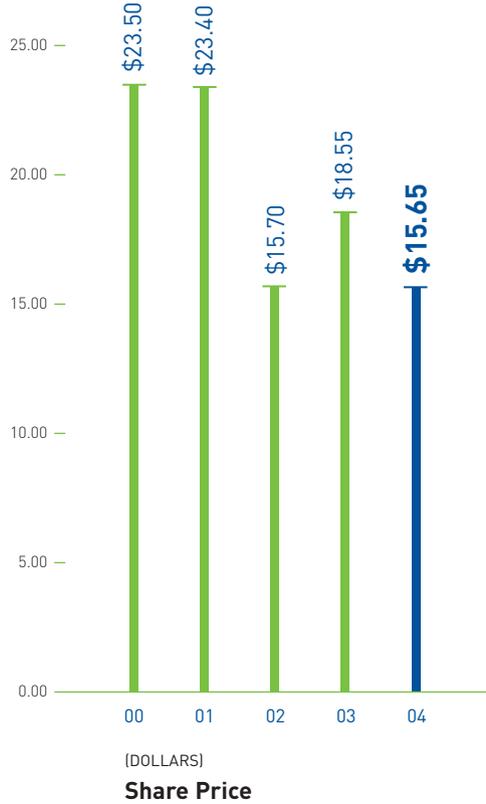
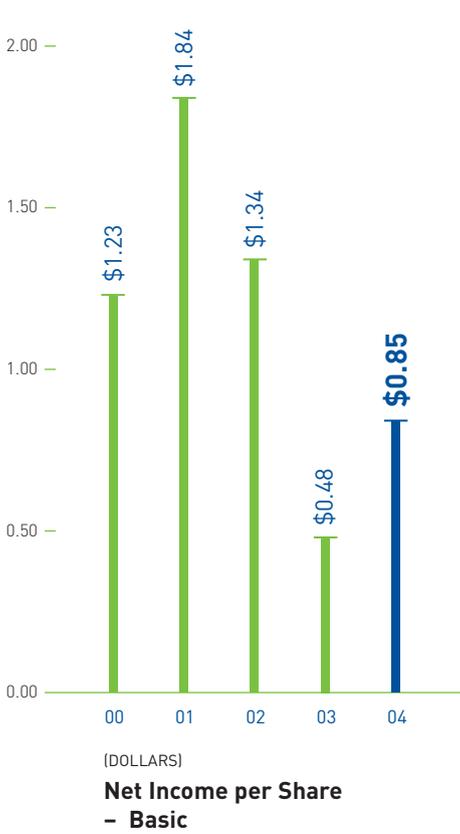
**C. Warren Goldring**

Chairman

# changing for the



# future



**“Building on our solid business, deep talent and financial strength, we’ll do what it takes to grow AGF and deliver long-term value to our shareholders.”**

### **Our Vision for the New AGF**

AGF has a strong and valuable business, with a proud history going back to 1957 and an enviable track record of long-term growth. Over the years, we have built a solid franchise driven by the pursuit of excellence in investment management.

Today, our values remain the same. But as the environment around us has shifted dramatically, we recognize the need for bold action as we regain

our position as one of this country’s premier investment management firms. That’s why you’ll see a new AGF as we revitalize our organization at every level in the coming year.

The changes are already well underway, and there are more to come. Building on our foundation of strong fund performance, we are committed to stimulating new sales, gaining market share, growing our assets under management and delivering long-term value to our shareholders.



**Blake C. Goldring, CFA**

President and Chief Executive Officer

## Achievements in Fiscal 2004

### Restructured Our Business to Better Serve Advisors

We made a key decision in early 2004 to retool AGF Funds Inc. in order to deliver industry-leading service to our clients. Our goal is to take “client-centric” to a whole new level in the investment management business. To accomplish this, we are integrating the functions of sales and marketing, and introducing a new internal structure that focuses on building relationships and increasing sales penetration across channels.

We expanded our sales force by 25 per cent to ensure greater coverage across all sales regions in Canada. And we undertook a comprehensive review of our entire range of investment products to ascertain how we can be more competitive and more responsive to advisor and investor needs. Early in 2005, we began to launch new products and enhancements that are the result of this important audit.

In addition, we are implementing one of the most advanced customer relationship management (CRM) systems in the investment industry, which will allow our sales teams to meet their clients armed with greater understanding and ready to deliver more value.

The combined power of these initiatives represents a new platform for rebuilding relationships with our key target market — investment advisors.

### Renewed Our Leadership Team

This year, we recruited top industry professionals to join the AGF team in a number of key positions. To lead the renewed sales charge, we appointed Randy Ambrosie to the newly created position of Executive Vice-President, Sales and Marketing. Randy has extensive experience in the industry and an outstanding track record building relationships in the financial services industry. He has accomplished an enormous amount in a short time, and now heads a revitalized team of top performers.

Early in the year, we appointed Merri Jones as President and Chief Executive Officer of AGF Private Investment Management. Merri’s mandate is to build a national network of high-net-worth investment firms for AGF PIM while maintaining an intense focus on meeting client needs. She has already met success with the completion of two acquisitions in key markets.

I am also pleased to welcome Greg Henderson as Chief Financial Officer. Greg has more than 20 years of experience in finance and will be a strong asset in building AGF’s long-term growth and profitability. He succeeds Bill Cameron, who has retired from his position as CFO after 39 years of dedicated service to AGF. We will continue to benefit from Bill’s experience as he remains in an advisory capacity to AGF for the next two years. On behalf of the entire management team and Board of Directors, I thank Bill for his key role in building this company.

## Bolstered Financial Strength

We have a robust financial foundation, and in 2004 we built on that strength. Our business generates substantial operating cash flow and through prudent management we have maintained a healthy balance sheet. Contributing to this strength is our judicious use of operating cash over the past several years. In 2002, we made significant acquisitions to build our business. In 2003, we reduced our long-term debt by \$114 million. And in 2004, we shored up our financial foundation and increased shareholder returns by repurchasing two million shares, paying down \$54.2 million in long-term debt and raising the dividend by 39.0 per cent. As we enter 2005, we have ample flexibility to execute our vision for the long-term benefit of shareholders.

### Annual dividends paid per share<sup>††</sup>



\* Fiscal years ending November 30.

† Adjusted for stock splits in 1998 and 2000.

AGF overcame a challenging environment to deliver solid financial results in fiscal 2004. Total assets under management rose 11.2 per cent to \$31.4 billion, up from \$28.2 billion from 2003. For the year ended November 30, 2004, revenue was \$639.9 million, up 6.5 per cent compared with \$600.8 million last year. Cash flow from operations declined 0.4 per cent to \$207.8 million, or \$2.26 per share diluted, from \$208.5 million or \$2.25 per share diluted in 2003. Net income was \$77.3 million, compared with \$44.0 million or \$0.47 per share basic in the prior year. The increase in net income was in part due to a decline in income tax expense from \$73.2 million in 2003 to \$7.6 million in 2004. The fiscal 2003 tax expense included a \$40.2 million one-time charge related to the change in future Ontario income tax rates.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$252.5 million, a decline of 11.2 per cent from \$284.3 million in fiscal 2003 due predominantly to costs of \$31.0 million recorded in the fourth quarter related to an agreement with the Ontario Securities Commission, and a \$12.8 million gain on disposition of an associated company recorded in fiscal 2003. Excluding these amounts, EBITDA increased by 4.4 per cent in fiscal 2004 as compared with fiscal 2003.

## Delivered Leading Fund Performance

We celebrated a number of successes on the operational front this year. Our investment management team continues to demonstrate that experience and focus pay off. With investment products across the wealth continuum and the ability to serve investors at every stage of life, AGF has one of the broadest selections for advisors and investors. We have more than 50 mutual funds across investment styles, regions and categories. Our diverse line-up of award-winning investment managers includes both in-house managers and external sub-advisors.

AGF's long-term performance is among the best in the industry. Fully 62 per cent of our mutual fund assets performed above the median over five years as of November 30, 2004, and 75 per cent were above the median over 10 years.

AGF International Advisors Company Limited (AGFIA), our Dublin-based subsidiary, won the award for best five-year performance worldwide in European equities at the *AsianInvestor* magazine 2004 Awards for Achievement. AGFIA also ranked second in an independent survey on behalf of *The Financial Times* of top-performing money managers worldwide. In the category of European equity, AGFIA was second over three years and fourth over five years.

Once again, AGF's skill in generating gains for our clients was recognized at the Canadian Investment Awards for 2004, which honour top performance and long-term results. AGF Global Government Bond Fund, managed by Clive Coombs and Scott Colbourne, was named *Best Foreign Bond Fund* for the third straight year. AGFIA took home the *Best Financial Services Equity Fund* award for AGF Global Financial Services Class, managed by AGFIA's Rory Flynn. The *Precious Metals Equity Fund of the Year* went to AGF Precious Metals Fund, managed by Bob Farquharson and Charles Oliver.

### **Built Our Product Offering**

Our strategic planning in 2004 has yielded results early in 2005. Subsequent to year-end, we unveiled a series of product enhancements and new product launches designed to meet the changing needs of our clients. These include two new yield-generating funds — AGF Monthly High Income Fund and AGF Diversified Dividend Income Fund, a low-load purchase option for our mutual funds, more frequent and higher distributions on two core balanced funds,

and streamlining of the fund line-up, including manager changes on five funds and expanding the role of top-performing AGFIA.

Harmony, AGF's tailored investment program, broke sales records this year as it emerged as a clear leader in the high-end wrap category. We call Harmony a "retail pension fund" because it offers investors benefits generally reserved for the largest pension investors. Through our exclusive portfolios managed by some of the world's best investment firms, Harmony wraps personalized portfolio management into a single account.

This year Harmony was one of the fastest-growing wrap programs in Canada. Assets under management rose to \$884 million from \$522 million, a growth of 69 per cent, and we're well on track to hit \$1 billion before the end of RSP season. Gross sales for the year rose 63 per cent to \$453 million. We increased the depth and breadth of our sales penetration, with the number of advisors offering Harmony to their clients rising 41.5 per cent over last year.

Harmony is defined by the flexibility and choice it offers advisors and investors. We enhanced our offering with expanded purchase options and the launch of Harmony Portfolios, a fund-of-funds structure that offers a complete portfolio in a single purchase. We delivered on our commitment to excellence in money management by introducing four new sub-advisors. Each manager was carefully chosen for its track record of consistent outperformance.

It was also a banner year for AGF Private Investment Management (PIM), which is now one of Canada's largest independent discretionary wealth management firms. We delivered on our commitment to grow AGF PIM with two key additions.

We acquired P.J. Doherty & Associates, Ottawa's leading high-net-worth investment counselling firm, and Cypress Capital Management Ltd., a leader in the Vancouver private client market. As of November 30, 2004, AGF PIM has \$4.7 billion in assets under management and offices in the key markets of Montreal, Ottawa, Toronto, Calgary and Vancouver.

AGF Trust also continues to set new records for growth by any measure. Total assets grew 40.4 per cent over last year, with mortgages up 32.7 per cent and consumer loans soaring 51.1 per cent. The number of advisors offering AGF Trust products rose 24 per cent compared with last year, and we grew our penetration in virtually every channel. AGF Trust's revenue for the year ended November 30, 2004 was \$42.6 million, up 18.7 per cent from \$35.9 million last year. Pre-tax income rose 81.1 per cent to \$9.9 million. AGF Trust's products allow advisors to expand their offering to clients, and also help drive sales of AGF mutual funds.

### Competing in the New Landscape

While we celebrated wins on a number of fronts in fiscal 2004, we also began the process of changing our company to significantly strengthen our competitive position in the new landscape.

The past few years have been remarkable for our industry in a variety of ways. AGF has a hard-earned, top reputation as an equity manager, and we have a comparatively large percentage of assets in international equities. Due to a number of cyclical factors, including a long bear market on the heels of the technology meltdown and followed by declining interest rates, investors have turned to fixed income and yield-producing products. Despite the strong performance of our international funds, our sales were hampered by the cycle. While we have expanded our product line-up to include a broader selection of income products, we will also benefit when the rotation back to equities occurs.

During the year, AGF also cooperated with the Ontario Securities Commission as it undertook a review of a trading practice known as market timing, employed by a small number of investors from 2000 to 2003. Although market timing is not illegal, AGF, along with three other companies, agreed to pay compensation to any unitholders who were disadvantaged by this practice. AGF will pay \$29.2 million, excluding expenses, which has been taken as a charge against fiscal 2004 earnings.

In reviewing market timing, the OSC made it clear that this was an industry-wide matter and not an ongoing issue. They also stated that they found no evidence of market timing by AGF employees.

More than one year prior to the OSC agreement, AGF voluntarily put in place measures to protect its funds against market timing. It was certainly never our intention that investors be disadvantaged by these trading practices. For 47 years, we have served our clients to the highest professional and ethical standards. We are committed to practising even greater vigilance to protect our funds for long-term investors now and in the future.

The foundation of our business is trust. We appreciate the trust investors place in us, and we are committed to earning it every day. AGF was a pioneer in mutual fund corporate governance. Nearly 20 years ago, we were one of the first in the industry to form a board of trustees for mutual fund trusts to represent the best interests of unitholders. AGF's mutual fund boards have a majority of independent trustees and are separate from the board of AGF Management Limited. During the year, we further strengthened our mutual fund boards with the addition of highly regarded global economist David Hale as a trustee.

## **Toward the New AGF: Strategic Priorities for the Year Ahead**

### **1. Reinforce investment management excellence**

We take great pride in our commitment to unparalleled portfolio management. We won a number of honours in 2004, including awards for our fund management expertise and new institutional mandates from international clients. Wins like these come from the skill of our people and our processes. To sustain this competitive advantage, we will continue to invest in the people and operations that drive our success.

Our efforts are focused on maximizing performance and delivering industry-leading products across the board. The next step is to improve our communication with clients to increase their understanding of our process and track record.

### **2. Foster a client-centric organization focused on multi-channel distribution**

At AGF, we aim to be an organization that adds value for our advisors and helps make their business a success. That means listening to what our clients want. We will deliver solutions that meet their current needs and anticipate their future requirements. We already have one of the broadest distribution platforms, serving planners, brokers, dealers, insurance companies and banks. Our goal is to be among the top four firms for investment advisors in every channel. We have already begun the strategic, broad-based and sustainable changes to achieve that goal.

In this business, independence is a virtue. AGF's competitive edge will come from our ability as an independent firm to act quickly and decisively to serve our clients. By delivering top products that advisors want to sell and investors want to own, we will win business as a partner and a trusted source.

### **3. Build our support entities**

Core support entities are Unisen Inc., Investmaster Group Ltd., and Smith & Williamson Holdings Ltd.

Unisen Inc. is a leader in back-office outsourcing to the Canadian fund industry. Over the last few years and through a combination of acquisitions and organic growth, we have built the business into a profitable, stand-alone company. Based in Mississauga, Ontario, and guided by a separate management team, Unisen employs the gold standard in processing software in the industry. New strategic initiatives include the ability to provide service quality, innovative products, and building on Unisen's market-leading IT platform.

We believe the outlook for Unisen is positive given its strong market position. This is supported by the rise in administrative outsourcing in the investment fund business, with Canada yet to catch up to the United States and Europe.

AGF also owns 100 per cent of U.K.-based Investmaster Group Ltd., which handles 25 per cent of the London Stock Exchange's daily private client volumes. Investmaster's acquisition of Consort Information Systems in 2003 means that the group now has the greatest and most diverse number of users of wealth management solutions in the U.K.

Also in the U.K., AGF holds a 31.6 per cent interest in Smith & Williamson Holdings Ltd., one the largest integrated and independent private client firms.

Through these support entities, we bring diversification and add value to our core business.

#### 4. Pursue strategic acquisitions to supplement organic growth

AGF is steadfast in our strategy to grow our business organically while seeking strategic acquisitions. Our management team has a track record of acquiring strong companies and integrating them into our operations. We will continue to evaluate opportunities from a financial and operational standpoint with an eye to increasing shareholder value. Our criteria are straightforward: acquisitions must add value to our offering and have strong synergies with our business, as well as provide a solid return on investment for our shareholders. We expect a long-term after-tax return from investments in excess of 15 per cent.

While there are many opportunities for consolidation in the market today, the environment is particularly competitive for acquisitions. However, AGF has the financial strength to add scale to our mutual fund business through a strategic acquisition, and the will to act on the right opportunity. Building on the successful integration of our two high-net-worth management acquisitions this year, we also see potential for AGF in the area of private wealth management, which tends to be a fragmented and regionalized sector.

#### Measuring Our Success

Conditions remain uncertain in our industry as we enter 2005. While equity markets have rebounded, investors continue to seek income- and yield-producing investments. The outlook for the Canadian and global economies is healthy, though tempered somewhat by the strength of the Canadian dollar. On the heels of our positive changes, AGF is well-positioned to take advantage of market cycles.

As we evaluate our success, the management team and the Board of Directors at AGF will look for growth in the following measures:

- / Revenue and earnings
- / Return on equity
- / Assets under management
- / Net sales
- / Rank among advisors
- / Sales penetration
- / Market share
- / Brand loyalty

Throughout 2005 we will focus on improving our performance on each of these value drivers. A great deal of work lies ahead, but I am confident that we are on the way to reclaiming our rightful place as a clear leader in our industry. AGF is changing. And we are becoming a stronger competitor that works to win.

#### A Few Words of Thanks

Change takes effort, and effort comes not from organizations, but from people. I would like to acknowledge and thank all the employees of AGF, who have worked very hard to implement new initiatives and position the company for renewed growth. I'd also like to thank the Board of Directors for its energy and valued counsel throughout the year.

To our shareholders, we appreciate your support and confidence in AGF as we focus on delivering long-term growth. I look forward to new achievements and success in 2005.

Sincerely,



**Blake C. Goldring, CFA**

President and Chief Executive Officer

## AGF Financial Management

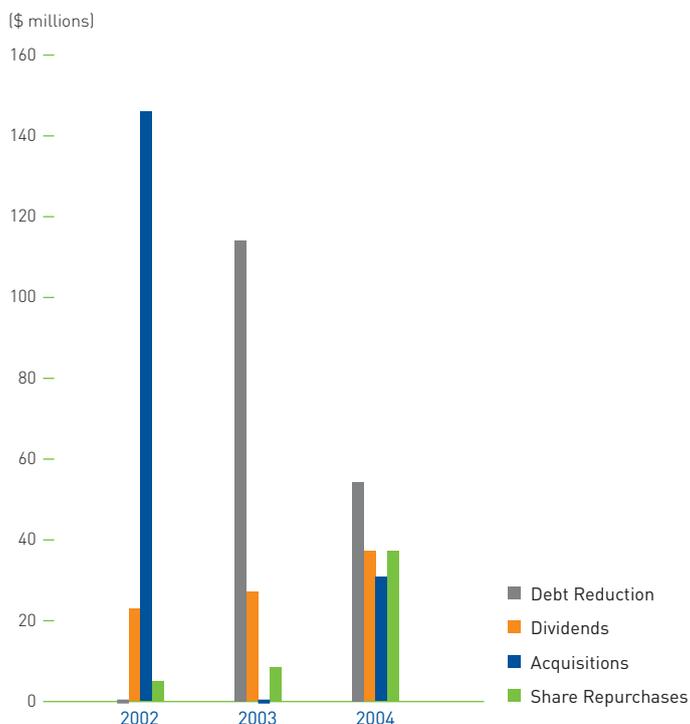
**AGF is changing** our approach to financial management to become more proactive and aggressive in identifying opportunities and efficiencies. We began this process in 2004 with a number of initiatives to increase returns to shareholders and build value. AGF increased the quarterly dividend payments this year by 39.0 per cent, to 0.41 cents from 0.295 cents. Since 1997, we have increased the quarterly dividend at a compound annual growth rate of 24 per cent. As of November 30, 2004, the dividend yield on AGF Class B non-voting shares is 2.8 per cent. We also repurchased 2,099,800 AGF Class B non-voting shares during 2004, demonstrating our confidence in the future of the company.

Our approach to financial management has always been to balance long-term growth with healthy fiscal prudence. We made two strategic acquisitions for \$38.3 million to strengthen AGF Private Investment Management, and we believe those investments will deliver excellent value in building the business. During fiscal 2004, we paid down \$54.2 million of long-term debt, and our debt-to-equity ratio now stands at a conservative 0.08:1.

AGF's total assets under management rose 11.2 per cent during the year to \$31.4 billion, thanks to our strong performance in fund management. As a result, we were able to deliver healthy profits and free cash flow for the year. We intend to use our financial flexibility to invest in delivering industry-leading client service, revitalizing sales and making strategic acquisitions that support our business and add value for shareholders.

Over the long term, AGF Class B non-voting shares continue to deliver strong shareholder value. For the 10-year period ended November 30, 2004, the total return on AGF Class B non-voting shares is 22.5 per cent.

### Use of free cash flow



### Achievements in 2004

- / Increased returns to shareholders through increased dividend payments and share buybacks
- / Increased dividends by 39.0 per cent
- / Repurchased 2,099,800 AGF Class B non-voting shares
- / Paid down \$54.2 million in long-term debt
- / Made two acquisitions for a total of \$38.3 million

### Priorities for 2005

AGF's priorities for the year ahead are clear. We will continue to invest in organic growth, identifying operating efficiencies and maintaining our focus on cost containment. At the same time, we will support the efforts currently underway to become a truly client-centric organization that is a top choice for investment advisors across Canada.

We will also continue to identify and pursue strategic acquisitions that help grow our business and deliver solid long-term returns for shareholders. We intend to increase those returns by further buying back shares to the extent our stock price affords the opportunity, and continuing to pay dividends at a ratio that returns value.

# changing for growth



**“AGF enjoys an extremely strong balance sheet with robust cash flows, despite the challenges we faced in net sales. The company is well-positioned to use its financial strength to build the business and increase returns to shareholders.”**

**Greg Henderson, CA**

Chief Financial Officer  
AGF Management Limited

## AGF Investment Management

AGF is changing the way we communicate our philosophy and our approach. We're proud of our fund line-up, our expertise and our performance, and we are committed to working closely with sales and marketing to highlight our successes, explain our process and manage new products. Advisors and investors deserve to know they are buying funds from a global team with an excellent track record.

AGF's broad line-up of mutual funds offers options across investment styles, regions and market sectors to meet the goals of any investor. Whether managing growth, value, specialty or fixed income funds, we are driven by five basic principles:

- 1 / **Fundamental research**
- 2 / **Global perspective**
- 3 / **Long-term focus**
- 4 / **Innovative thinking**
- 5 / **Accountability and risk control**

These principles have served us well. AGF's long-term fund performance is among the best in the industry, with 75 per cent of our assets performing above the median for the 10-year period ended November 30, 2004. Our strength cuts across investment styles, sectors and geography. For example, funds that were first-quartile performers for the year ended November 30 span mandates from international equity, Canadian equity, Canadian balanced and U.S. value to emerging markets and precious metals.

AGF's money management expertise is gaining recognition beyond mutual funds and beyond North America. In addition to managing portfolios for institutional accounts in Canada, AGF has international investment management mandates for global organizations. In December 2004, we won three overseas mandates totalling approximately CDN \$900 million. The mandates are for Canadian equity, European equity and precious metals, showcasing our range of strength. We intend to capitalize on this success in 2005.

# changing to win

## Achievements in 2004

- / Won top honours at the 2004 Canadian Investment Awards for *Best Foreign Bond Fund*, *Best Financial Services Equity Fund* and the *Precious Metals Equity Fund of the Year*
- / Won the award for best five-year performance worldwide in European equities at the *AsianInvestor 2004 Awards for Achievement*
- / Ranked second worldwide for European equities in an independent survey conducted on behalf of *The Financial Times* of top-performing money managers
- / Won three international mandates worth \$900 million

## Priorities for 2005

AGF's investment management group will maintain a focus on delivering industry-beating returns in 2005. Our commitment to performance means we will continually evaluate each of our funds, and make changes as necessary to ensure we have the best managers on each mandate. We have always believed it's important to invest in recruiting, nurturing and training the right people, and this remains a priority for us in the year ahead.

Building on the momentum of our international mandate wins, we will continue to pursue opportunities to win mandates and apply our skills, whether in North America or abroad. And we will work closely with the sales and marketing team to articulate our success and communicate clearly, fully and frequently with the investment advisors we serve.



**"AGF has a team of 40 investment professionals in Toronto, Dublin and Singapore, supported by external sub-advisors around the globe. With this size, we are nimble enough to react quickly to changing investment situations, yet large enough to deliver portfolio management expertise that stacks up with the best in the world."**

### Clive Coombs

Executive Vice-President  
AGF Management Limited

## AGF Sales and Marketing

**AGF is changing** dramatically to focus completely on meeting the needs of investment advisors. Our goal is to make sure AGF is one of the top four firms for advisors. To achieve that, we are listening to what our clients want, and making sure we have the experience, resources and processes to deliver — better than anybody else.

The process started in the summer of 2004 with the integration and reorganization of sales and marketing into one team, working together to create a client experience that is second to none. The restructuring has been bottom-up and top-down, based on results and accountability. We have expanded our sales force by 25 per cent to ensure better coverage, stronger relationships and deeper penetration. We reorganized the sales teams to ensure each region has a defined strategy, clear targets and strong support.

To ensure our success across multiple channels, we reorganized the marketing teams to focus on delivering solutions tailored for each channel. Key to delivering outstanding client service is the ability to truly understand each client. In fiscal 2004, we completed the implementation of a customer relationship management (CRM) system that puts us at the forefront of the industry. When our sales teams meet with clients, they will be ready to deliver added value based on each client's business.

As always, sales will be powered by AGF's strong fund performance and broad selection of products. Subsequent to year-end, we responded to client needs with the introduction of more yield-generating products — AGF Monthly High Income Fund and AGF Diversified Dividend Income Fund. We also offered a low-load purchase option for our mutual funds and more frequent and higher distributions on two core balanced funds.

AGF's value to clients also comes from our independence. We will earn shelf space and loyalty by delivering top quality products, broad product selection, value-added programs and outstanding client service. Our agility means we can respond quickly to new trends in the market. To capitalize on this strength, we have an expert team dedicated to rigorous research that will help us anticipate trends, communicate our product offering and develop new products. We are fully committed to increasing net sales, market share and client satisfaction.

# changing

### Achievements in 2004

- / Began integration of sales and marketing into one unified department focused on serving advisors
- / Expanded sales force by 25% to deliver wider coverage and deeper penetration
- / Restructured sales force to deliver better client service and focus on accountability
- / Improved our marketing capabilities to focus more on multi-channel effort
- / Developed new products and enhanced existing products for roll-out in 2005

### Priorities for 2005

In 2004 we laid the foundation; in 2005 we'll build the frame that delivers sales growth. Our first priority is to complete the department restructuring already underway as we work toward creating a customer experience that is second to none. We will finalize the integration of sales and marketing, and refine our CRM system on an ongoing basis to derive the maximum benefits.

We are also wholeheartedly committed to enhancing our product and service offerings in 2005. We've already launched new products and there are more to come. We are investing time and resources into developing more value-added programs to help advisors build their business and serve their clients. The success of these efforts comes down to our ability to clearly communicate AGF's strong performance record and unique product offering.

# the way we work

**"AGF has a solid plan to win business by building a client-centric organization that won't be beat. As an independent firm, we have the agility to meet evolving client needs while maintaining a focus on discipline and real accountability throughout the organization."**

### Randy Ambrosie

Executive Vice-President, Sales and Marketing  
AGF Funds Inc.



## AGF Private Investment Management

AGF Private Investment Management is changing administrative infrastructure to deliver better reporting and client service with improved operational efficiency. Some things, however, never change — and at AGF PIM, that is our dedication to investment management.

AGF PIM is one of Canada's largest independent discretionary wealth management firms. Offering fully customized portfolios with a focus on personal service, we manage portfolios for individuals, estates, pension funds, endowments and corporations. We are committed to producing strong, steady investment returns that meet the individual investment goals and tax considerations of each investor.

Following the acquisitions of P.J. Doherty & Associates Co. Ltd. in Ottawa and Cypress Capital Management Ltd. in Vancouver, combined with the existing Magna Vista Asset Management office in Montreal, AGF PIM now has broad coverage across Canada, including locations in Toronto and Calgary.

AGF PIM's strength comes from its boutique philosophy. With each acquisition, we have maintained the investment professionals, trusted brand name, unique offerings and local presence while leveraging the strength of AGF. High-net-worth clients benefit from direct, personal contact with their local investment counsellor, combined with access to a broad range of investment expertise across the country. Building on the momentum of 2004, AGF PIM is well-positioned to grow its business in the year ahead.

# changing



**“AGF Private Investment Management doubled its assets under management last year. It is set to become Canada’s pre-eminent investment counselling boutique by providing expert and personalized investment management services to high-net-worth clients.”**

### **Merri Jones**

President & Chief Executive Officer  
AGF Private Investment Management Limited

### Achievements in 2004

- / Expanded national presence with two key acquisitions: P.J. Doherty & Associates Co. Ltd., Ottawa's leading high-net-worth investment counselling firm, and Cypress Capital Management Ltd., a Vancouver-based leader in the same field
- / Built platforms and distinctive business growth strategies for Magna Vista, P.J. Doherty & Associates Co. Ltd. and Cypress Capital Management Ltd.
- / Increased assets under management to \$4.7 billion

### Priorities for 2005

On the heels of a successful year for PIM, in 2005 we will focus on completing the integration of our acquisitions and improving operations. We intend to grow our business across markets, achieving a growth rate that outpaces the industry and increasing profitability.

To do that, we will use a boutique approach, investing in the identity and marketing of each local investment management firm we've acquired. The unique combination of skills builds value for AGF PIM and its clients. At the same time, we will standardize best practices across all offices and work to foster an environment of professionalism, innovation, knowledge sharing and partnerships.

# through action

## AGF Trust

**AGF Trust is changing** its internal processes and resources to meet the demands of size and growth. It has added a dedicated sales team to serve existing customers, increase penetration into mortgage and advisor channels and broaden distribution through new channels. In addition, AGF Trust has reorganized operations to increase efficiency and deliver top customer service.

AGF Trust offers mortgages, investment loans, RSP loans, and both non-registered and registered term deposit products through mortgage brokers, investment advisors, insurance brokers and partner institutions. Once again, the business grew sales in each category significantly, while also adding value to the wide network of advisors who do business with AGF Funds.

Innovation and customer focus drive everything we do at AGF Trust. Subsequent to year-end, we were the first in the industry to offer an RESP loan that can be allocated to an AGF RESP, allowing parents to take advantage of unused RESP contribution and Canada Education Savings Grant amounts. We are committed to delivering new solutions to meet customer needs and continuing to grow our market share. During the year, we became an alternative mortgage lender to one of Canada's major banks, and will continue to pursue profitable partnerships that can help build our business.

**“There is tremendous opportunity to continue the extraordinary growth of AGF Trust. This is particularly true in the mortgage broker channel, where our early success indicates lots of market share potential, and in the advisor channel, where as a leader and innovator we expect to increase our penetration.”**

**Mario Causarano, CA**  
President & Chief Operating Officer  
AGF Trust Company



### Achievements in 2004

- / Achieved after-tax return on equity of 15.2%
- / Generated year-over-year net growth in assets of 40.4%
- / Increased the number of advisors offering AGF Trust products by 24%
- / Contained specific loss provisions on uninsured mortgages at 0%, on non-margin investment loans at 0%, and on RSP loans at 0.7% or lower
- / Advanced approximately \$125 million in mortgages, more than double the 2003 level
- / Increased net monthly mortgage balances from \$2 million per month to \$15 million per month
- / Increased the number of channels offering AGF Trust products, including advisors and insurance representatives, and expanded in the mortgage broker channel
- / Increased operating efficiency through the deployment of web-based applications
- / Added a dedicated sales force to focus on the needs of our distribution partners

### Priorities for 2005

AGF Trust's greatest priority is to continue its track record of strong business growth. Our objectives are to generate strong year-over-year net asset growth, and increase our profitability — measured specifically by after-tax income and return on equity — in line with previous years. We will also continue to manage risk prudently, containing specific loss provisions once again to comfortably low levels through disciplined loan underwriting.

Our goals are to increase penetration in all our distribution channels. To grow our mortgage business, we will increase our geographic reach and grow our mortgage sales force in 2005 to expand relationships with mortgage brokers. Our success also comes from our ability to respond to customer demands. We will continue to launch new and innovative products that meet our partners' needs.

# changing for results

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

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### Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis 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. 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 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 general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events 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. 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. Please see the "Factors that May Affect Future Results" section for a further discussion of factors that may affect actual results.

## Consolidated Performance

### Overview

Management's Discussion and Analysis ("MD&A") presents an analysis of the financial condition of AGF Management Limited and its subsidiaries as at November 30, 2004 compared with November 30, 2003, and the results of operations for the year ended November 30, 2004 compared with the corresponding period of 2003. This discussion should be read in conjunction with our audited Consolidated Financial Statements and Notes for 2004.

Throughout this discussion, percentage changes are calculated based on results rounded to the nearest thousand. Results, except per share information, are presented in millions of dollars.

AGF Management Limited ("AGF"), with over \$31.4 billion in Assets Under Management ("AUM"), is one of Canada's largest independent mutual fund and investment management companies with operations in Canada, England, Ireland, Singapore, China and Japan. We commenced operations in 1957 with one of the first mutual funds available to Canadians wishing to invest internationally, and as at November 30, 2004 offered over 50 mutual funds to investment advisors and their clients.

While the Canadian mutual fund business remains the mainstay of our business, representing 72.5% of AUM, a growing portion of our revenues is now being earned from institutional and private investment management AUM.

As at November 30, 2004, institutional and private investment management AUM grew to \$8.6 billion, an increase of 70.7% over November 30, 2003. Much of this increase was attributable to the acquisitions of P.J. Doherty & Associates and Cypress Capital Management Ltd. during the year. With 27.5% of our AUM coming from investment management relationships outside of the traditional mutual fund business, we are a much more diversified organization from an investment management perspective as compared to prior years. Our business diversity and mix of investment products positions us well for future growth opportunities.

For purposes of this discussion, the operations of AGF Management Limited 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, Fund Administration Operations and Trust Company Operations.

The principal subsidiaries and associated companies included within each of our reportable segments, which are collectively referenced as the AGF Group of Companies ("the AGF Group"), include:

#### Investment Management Operations Segment

**AGF Funds Inc. ("AGFFI")** – provides investment management and advisory services and is responsible for the sales and marketing of the AGF mutual funds. Based on AUM, AGF Funds Inc. is one of the larger mutual fund organizations in Canada. We manage approximately 50 mutual funds totaling \$22.7 billion in AUM. In addition, we manage international and domestic AUM through or under separate investment management mandates totaling \$3.9 billion. In certain instances these mandates are advised by or managed directly by international operations listed below.

**AGF Private Investment Management Limited ("PIM")** – provides personalized investment counselling services for high-net-worth clients, estates, endowments, institutions and corporations. With the completion of the acquisitions of P.J. Doherty & Associates Co. Ltd. ("P.J. Doherty") for consideration of \$12.2 million on January 15, 2004, and Cypress Capital Management Ltd. ("Cypress") for consideration of \$26.1 million on June 30, 2004, we now have a national network of high-net-worth investment firms with total AUM of \$4.7 billion.

**AGF International Advisors Company Limited** – Dublin-based and established in 1991, this operation provides investment research and advisory services on European and other international markets for the AGF mutual funds and other clients. In addition, they also have investment management mandates.

**AGF Asset Management Asia Ltd.** – Singapore-based and established in 1996, this operation provides investment research and advisory services on Asian markets for the AGF mutual funds and other clients.

#### Fund Administration Operations Segment

**Unisen Inc. ("Unisen")** – based in Mississauga, Ontario, Unisen Inc. offers comprehensive third-party administration services and transfer agency software solutions to the financial services industry. Our Investment Management Operations segment currently represents the most significant source of revenue for Unisen.

**Investmaster Group Limited** – a wholly owned subsidiary that is a leading supplier of software products and services to the private wealth management community in the U.K.

#### Trust Company Operations Segment

**AGF Trust Company** – in operation since 1988, AGF Trust offers a broad range of web-enabled products and services, including GICs, term deposits, mortgages, investment loans and RSP loans. AGF Trust is federally incorporated and licensed across Canada and is a member of the Canadian Payments Association.

#### Other Segment

**Smith & Williamson Holdings Limited** – a leading, independent private client investment management, financial advisory and accounting group based in the U.K. We hold a 31.6% interest in this company as at November 30, 2004.

The following discussion provides details of our overall corporate business strategy and achievements in connection with these strategies in fiscal 2004 and is followed by a discussion of our Key Performance Indicators, which are measures that we use to determine whether or not we have been successful in achieving our stated strategies.

It is also important to understand that significant risks and uncertainties related to our business exist that may prevent us from achieving our strategies. An overview of Factors that May Affect Future Results (Risk Factors) related to our business has also been provided.

Finally, a discussion of Critical Accounting Policies follows. These accounting policies are an integral part of the preparation of our financial statements and require us to make estimates and assumptions that affect the amount of assets, liabilities, revenues and expenses reported in our financial statements.

With an understanding of our corporate strategy, relevant measures to determine success, an understanding of the risk factors and critical accounting policies, the discussion that follows should give readers a management perspective of our operations.

## Corporate Strategy

AGF Management Limited helps to identify and facilitate opportunities for our business segments and ensures segment strategies are aligned with the overall corporate strategy of targeting sustainability, profitability and value for our shareholders over the long term. As stated in our 2003 MD&A, our principal focus in fiscal 2004 was to strengthen the core investment management business, while at the same time actively continuing the diversification of revenue sources both by industry and geography.

Our execution of this strategy continues and in 2004 we achieved the following:

- Restructured our businesses to better serve our clients and added significant management strength through key hires in our senior management ranks.

- Acquired Cypress and P.J. Doherty for combined consideration of \$38.3 million in an effort to bolster our industry position in private investment management and provide investment management expertise that allowed us to market new products in early 2005.
- Delivered value directly to our shareholders through dividend payments and our share buy back program.
  - i.) Dividends paid on AGF Class A voting common shares and AGF Class B non-voting shares increased to \$37.5 million in 2004 as compared with \$27.2 million in fiscal 2003. This represented an increase of \$0.115 per share or 39.0% over the \$0.295 per share paid in 2003.
  - ii.) Significantly increased activity with respect to our share buy back program. Repurchased 2,099,800 AGF Class B non-voting shares during 2004 as compared with repurchases of 503,300 shares in fiscal 2003.
- Delivered strong year-over-year financial growth in the Fund Administration Operations and Trust Company Operations segments of our business.
- Commenced a disciplined review of support entities to determine how each entity fits into our long-range business strategies, how operating synergies may be realized and how returns from each business segment can be maximized.

We remain committed to our corporate strategy that targets sustainability, profitability and value for our shareholders in the years to come, and a further discussion of specific business segment strategies is included in the segment discussions.

## Key Performance Indicators and Non-GAAP Measures

We measure the success of our business strategies using a number of key performance indicators, which are outlined below. With the exception of revenue, the following key performance indicators are not measurements in accordance with Canadian GAAP and 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 key performance indicators that are relevant to each segment.

### Assets Under Management (“AUM”)

AUM are critical to our business as it is from these assets that we generate fees from our mutual fund, institutional and private investment management relationships. AUM fluctuate in value as a result of investment performance, sales and redemptions.

In addition, AUM determines a significant portion of our expenses, as we pay upfront commissions and trailing commissions to investment advisors as well as investment advisory fees based on the value of AUM.

### Investment Performance (Market Appreciation of Fund Portfolios)

Investment performance, which 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 investment performance may result in redemptions, which in turn reduce our AUM and revenues. Strong investment performance may also contribute to gross sales growth or reduced levels of redemptions.

### Net Sales

One of the goals of our mutual fund business is to generate positive net sales on an annual basis, which in turn allows for increasing revenues. Gross sales and redemptions as a percentage of AUM are monitored separately. The sum of these two amounts composes net sales, which together with investment performance determines the level of average daily mutual fund AUM, the basis on which management fees are charged.

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

### Revenue

Revenue is a measurement defined by Canadian GAAP and is recorded net of fee rebates and taxes. 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 the net asset value of funds under management.
- Administration fees earned.
- Deferred sales charges ("DSC") earned from investors when mutual fund securities sold on a DSC basis are redeemed.
- Net interest earned on our Trust Company loan portfolio.

### EBITDA

We define EBITDA as income before interest expense, income taxes, depreciation and amortization. EBITDA is a standard measure used in the mutual fund industry by management, investors and investment analysts in understanding and comparing results. We believe this is an important measure as it allows us to assess our ongoing businesses without the impact of amortization and is an indicator of our ability to incur or service debt, invest in our business, finance sales commissions, pay dividends and execute share repurchase programs.

### 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 for cash.

### Return on Equity (ROE) and Return on Investment (ROI)

We monitor return on equity to assess the profitability of the consolidated company. We calculate ROE by dividing net income by average shareholders' equity. ROI is a key performance indicator that we utilize to assess prospective investments and to monitor past investments. ROI measures cash flow in relation to the original amount invested and incorporates the time value of money.

### Loan Asset Growth

In the Trust segment we focus on asset growth, as it drives net interest income and increases profitability. We target double-digit growth in assets and expect that mortgage lending will continue to make up a large part of future asset growth.

### Efficiency Ratio

In the Trust segment we also monitor the efficiency ratio, which is calculated by dividing non-interest expenses by the total of net interest income and fee income. Our goal is to contain growth in non-interest expenses below revenue growth and achieve an efficiency ratio of less than 50%.

## Factors that May Affect Future Results (Risk Factors)

There are many factors that may affect our ability to execute against our strategy. Some of these factors are within our control and others, because of their nature, are beyond our control. These factors apply to our corporate strategy as well as the business-specific strategies that are included in the segment discussions that follow.

### Company-Specific Factors

Demand for our products depends on the ability of our investment management team to deliver value in the form of strong investment returns, as well as the demand for specific investment products. A specific fund manager's style may fall out of favour with the market, resulting in lower sales and/or higher redemptions.

Our future financial performance will be influenced by our ability to successfully execute our sales and marketing strategy and improve our net sales. We have committed resources to building systems and attracting talented people. If sales do not materialize as planned, margins may erode.

Our strategy includes strategic acquisitions. There is no assurance that we will be able to complete acquisitions on terms and conditions that satisfy our investment criteria. After transactions are completed, meeting target return objectives is contingent upon many factors, including retaining key employees and growth in AUM of the acquired companies.

The success of our review of support entities will be influenced by whether strategic options being considered are available under terms that we view as beneficial to shareholders.

Most of our AUM are from investment advisors or strategic partners that offer our products along with competing products. AGF's brand and investment performance have contributed to our success in the past. However, our future success is dependent on access to distribution channels that are independent of our company.

### Non-Company Factors

The level of competition in the industry is high. Sales and redemptions of mutual funds may be influenced by relative service levels, management fees, attributes of specific products in the marketplace and actions taken by competitors.

We take all reasonable measures to ensure compliance with governing statutes, regulations or regulatory policies. However, a failure to comply with statutes, regulations or regulatory policies could result in sanctions or fines that could adversely affect earnings and reputation. Changes to laws, statutes, regulations or regulatory policies could affect us by changing certain economic factors in our industry. See the Government Regulations section for further details.

Our revenue is highly correlated to the daily value of AUM. As a result, revenues are generally not subject to significant seasonal swings. We experience somewhat higher sales during the RSP season, however, the immediate impact of the level of sales on total revenue is not significant. The "Selected Quarterly Information" table shows key performance statistics for the past eight quarters.

### Foreign Exchange Risk

Our main foreign exchange risk derives from the U.S. and international portfolio securities held in the mutual fund AUM. Change in the value of the Canadian dollar relative to foreign currencies will cause fluctuations in the Canadian dollar value of non-Canadian AUM upon which our management fees are calculated. We monitor this risk, and may, at the discretion of the fund manager, enter into foreign exchange contracts to hedge foreign exposure on U.S. and international securities held in funds.

We are subject to foreign exchange risk on our integrated foreign subsidiaries in Ireland and Singapore, which provide investment advisory services. These subsidiaries retain minimal monetary exposure to the local currency, their revenues are calculated in Canadian dollars and the local currency expenses are comparatively small.

### Interest Rate Risk

Excluding the AGF Trust operations, we are exposed to the risk related to changes in interest rates on \$48.5 million of floating rate debt at November 30, 2004. The effect of a 1% change in variable interest rates on this debt in fiscal 2004 would have resulted in a change of approximately \$0.5 million in interest expense for the year ended November 30, 2004. As the amount of interest paid is small relative to our operating cash flow, such a change in interest rates would not have a material impact on the results of operations or the fair value of the related debt.

For the AGF Trust operations, the impact of a 1% change in interest rates would be a change of annual net interest income of approximately \$0.2 million.

The foregoing discussion is not an exhaustive list of all risks and uncertainties with respect to our ability to execute against our strategy and readers are cautioned to consider other potential risk factors when assessing our ability to execute against our strategy.

## Critical Accounting Policies

Accounting policies are an integral part of the preparation of our financial statements in accordance with accounting principles generally accepted in Canada. Understanding these policies is a key factor in understanding our reported results of operations and financial position. See Note 1 of the Notes to Consolidated Financial Statements for a discussion of all of our significant accounting policies. Certain critical accounting policies require us to make estimates and assumptions that affect the amount of assets, liabilities, revenues and expenses reported in the financial statements. Due to their nature, estimates involve judgment based on available information. Therefore, actual results or amounts could differ from estimates and the difference could have a material impact on the consolidated financial statements.

We consider the following to be among our current accounting policies that involve significant estimates or judgments.

### Valuation of Goodwill, Management Contracts and Other Intangible Assets

Under Canadian GAAP, goodwill and management contracts are not amortized, but instead assessed for impairment at the reporting unit level on at least an annual basis. Goodwill and management contracts are assessed for impairment using a two-step approach, with the first step being to assess whether the fair value of the reporting unit with which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than the carrying value, a second impairment test is performed. The second test requires a comparison of the fair value of goodwill and management contracts to their carrying amount. If the fair value of goodwill and management contracts is less than their carrying value, goodwill and management contracts are considered to be impaired and a charge for impairment must be recognized immediately. The fair value of our reporting units is determined from internally developed valuation models that consider various factors, such as normalized and projected earnings, price-earnings multiples and discount rates. We use judgment in estimating the fair value of reporting units and imprecision in any assumptions and estimates used in fair value calculations could influence the determination of the goodwill and management contracts impairment and affect the valuation of goodwill and management contracts. We believe the assumptions and estimates used are reasonable and supportable in the existing environment. Where possible, fair values generated internally are compared to market information and are found to be reasonable.

Intangible assets that derive their value from contractual customer relationships or that can be separated and sold, and have a finite useful life, are amortized over their estimated useful life. Determining the estimated useful life of these finite life intangible assets requires an analysis of the circumstances and judgment. Finite life intangible assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. Such circumstances would indicate potential intangible asset impairment and would require a cash flow analysis at that time. As a result, recoverable value based on expected future cash flows is similar to other capital assets.

### Income Taxes

The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the asset or liability recorded is based on management's best estimate of the timing of the realization of the asset or liability.

### Amortization Policies and Useful Lives

We amortize the cost of property, equipment and other intangible assets over the estimated useful service lives of the items. On an annual basis, we reassess the existing estimates of useful lives to ensure they match the anticipated life from a revenue producing perspective.

### Accounting for Deferred Sales Commissions

Selling commissions paid on mutual fund securities are recorded at cost and are amortized on a straight-line basis over a period that corresponds with the applicable deferred sales commission ("DSC") schedule. The unamortized DSC amount on the balance sheet is compared to the value that would be realized if all outstanding DSC securities were redeemed as at the balance sheet date. If the calculated realization value is less than the unamortized amount on the balance sheet, a write-down of the balance sheet amount is required.

## Accounting for Loan Losses

Accounting for loan losses is an area of importance given the size of the AGF Trust Company's loan portfolio. Loan impairment is recognized when we determine, based on the identification and evaluation of problem loans and accounts, that the timely collection of all contractually due interest and principal payments is no longer assured. Judgment is required as to the timing of designating a loan as impaired and the amount of the required specific allowance. Judgment is based on an assessment of probability of default, loss given default and exposure at default. Changes in these estimates due to a number of circumstances can have a direct impact on the provision for loan losses and may result in a change in the allowance. General allowances also require judgment given that the level of general allowances depends upon an assessment of business and economic conditions, historical and expected loss experience, loan portfolio composition and other relevant indicators.

## Contingencies

We are subject to various claims and contingencies related to lawsuits, taxes and commitments under contractual and other commercial obligations. The company recognizes liabilities for contingencies and commitments when a loss is probable and capable of being reasonably estimated. Significant changes in assumptions as to the likelihood and estimates of the amount of loss could result in a change in the recognition of a liability.

## Consolidated Operating Results

The table below summarizes our Consolidated Operating Results for the years ended November 30, 2004 and 2003.

(\$ millions, except per share amounts) Years ended November 30	2004	2003	% change
Revenue	\$ 639.9	\$ 600.8	6.5%
Expenses	387.4	316.5	22.4%
EBITDA <sup>1</sup>	252.5	284.3	(11.2%)
Amortization	161.5	157.4	2.5%
Interest expense	6.1	9.7	(36.7%)
Income taxes	7.6	73.2	(89.6%)
Net income	\$ 77.3	\$ 44.0	75.6%
Cash flow from operations <sup>2</sup>	\$ 207.8	\$ 208.5	(0.4%)
Per share amounts - diluted			
Cash flow from operations	\$ 2.26	\$ 2.25	0.4%
Earnings	\$ 0.84	\$ 0.47	78.7%
Return on equity	8.5%	4.9%	

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

<sup>2</sup> Cash flow from operations before net change in non-cash balances related to operations.

Consolidated revenues increased by 6.5% for the year ended November 30, 2004, with all business segments reporting revenue growth. Investment Management Operations revenue grew 8.0% on the strength of higher average daily mutual fund AUM and the acquisition of P.J. Doherty and Cypress. Fund Administration Operations revenue increased by 0.5% in fiscal 2004 as compared with fiscal 2003, as revenues from parties outside the AGF Group grew by 4.9% offset by reductions in revenues earned from the AGF Group. Trust Company Operations revenues increased by 18.7% in fiscal 2004 over 2003 on the strength of increased mortgages and consumer loans. The increases in business segment revenues in 2004 were offset by the fact that 2003 consolidated revenues included a gain of \$12.8 million resulting from the disposition of an investment in an associated company.

Expenses increased by 22.4% in fiscal 2004 as compared with 2003. The majority of this increase is in the Investment Management Operations segment.

EBITDA declined by 11.2% for the year ended November 30, 2004 over the respective 2003 period, predominantly due to one-time items recorded in the fourth quarter of 2004 and the \$12.8 million gain on disposition of investment recorded in fiscal 2003. Excluding these amounts, EBITDA increased by 4.4% in fiscal 2004 as compared with fiscal 2003.

Amortization expenses remained relatively flat for the year ended November 30, 2004, increasing by 2.5% compared with the corresponding period in 2003. Amortization of deferred selling commissions in the Investment Management Operations segment accounted for \$121.7 million of the total amortization expense and was the driver in the year-over-year increase.

Interest expense decreased to \$6.1 million for the year ended November 30, 2004 from \$9.7 million in the same period in 2003. The decrease is primarily a result of lower average outstanding loan balances in 2004 as compared with 2003 and a reduction in interest expense recorded in marking to market the interest rate swaps.

Income tax expense for the year ended November 30, 2004 was \$7.6 million as compared with \$73.2 million in 2003. Fiscal 2004 tax expenses were reduced by \$15.7 million related to tax benefits acquired and utilized in 2004. The fiscal 2003 tax expense of \$73.2 million included a \$40.2 million charge related to the change in future Ontario provincial income tax rates.

The impact of the above revenue and expense items resulted in net income of \$77.3 million in fiscal 2004 as compared with \$44.0 million in fiscal 2003. Diluted earnings per share were up 78.7% in 2004 as compared with 2003.

For a more detailed discussion of revenue and expense items, refer to the individual operating segment discussions. An analysis of the 2004 fourth quarter results is included under the heading "Fourth Quarter Analysis."

## Outlook

After a period of rapid growth and consolidation of industry players, we believe that the investment fund industry in Canada is now in the early stages of maturity. Despite the maturity of the industry, demand for investment products will remain strong, as a significant amount of unused Registered Retirement Savings Plan contribution room exists in Canada. Mutual funds remain a very accessible and attractive solution for these retirement accounts. We also believe the demand for income/yield producing products will continue.

We plan to capitalize on opportunities for growth in the future, primarily by introducing innovative products and focusing on the needs of our clients and strategic partners.

Bolstering our sales force, introducing new products, and the competitive fee environment may result in reduced margins and a moderation of AGF's financial performance in 2005.

Business-specific outlooks are included in the segment discussions.

## Business Segment Performance

We report on three business segments: Investment Management Operations, Fund Administration Operations and Trust Company Operations. The Investment Management Operations 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 counseling services. The Fund Administration Operations segment 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 Operations 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 our long-term debt. AGF's reportable segments are strategic business units that offer different products and services.

## 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 and private investment management. Our products are delivered through multiple channels, including advisors, financial planners, banks, life insurance companies and consultants.

Investment management remains a highly competitive business with numerous domestic as well as foreign players serving the market. We believe that although the mutual fund business is reaching the early stages of maturity, there are many opportunities for growth. Consolidation in the mutual fund industry, particularly in distribution, has changed the competitive landscape. Some players have utilized vertical integration as a means to replace third-party product with proprietary product. We believe that such behaviour may create regulatory pressure to address conflicts of interest. The majority of industry participants have expanded and opened their distribution channels to allow for best-of-breed products for their clients. We believe our status as an independent fund manufacturer with no distribution channel conflict will benefit us as the industry continues to evolve.

Mutual fund industry sales have recently been concentrated in income-oriented products. During AGF's fiscal 2004 period, industry sales of equity mutual funds were in net redemptions, while bond and dividend income funds represented 73.9% of industry sales. We believe this trend is partly due to secular factors associated with an aging population. The fact that our product line-up was not particularly strong in these areas negatively impacted our gross sales results.

### Investment Management Operations Segment Strategy

The strategic priorities for our investment management operations are to continue to build on the 2004 initiatives to enhance our client-centric organization. Strategic initiatives include:

- Reinforce AGF's investment management excellence.
- Build a client-centric organization focused on multi-channel distribution.
- Pursue strategic acquisitions to supplement organic growth.

#### Reinforce AGF's Investment Management Excellence

Continually supporting and improving our investment management operations is central to the vision of our company. We strive for excellence and consistency in our funds. Introducing products that meet the needs of today's investor is a central part of this strategy. We believe that investors will continue to demand income funds as an increasing portion of Canadians near retirement.

Consistent with our stated strategy of new product introductions, and as a result of efforts in fiscal 2004, in early January 2005 we increased the distributions on certain existing funds and announced the launch of two new income-generating funds: AGF Monthly High Income and AGF Diversified Dividend Income.

We also announced a low-load purchase option for all funds (except AGF Managed Futures). Low load is a method of purchasing mutual funds that provides an alternative to the front end and DSC purchase options.

In addition to product announcements, in January 2005, we introduced Tony Genua as the new manager of AGF American Growth Class. This change to our flagship fund is a prime example of our dedication to investment management excellence.

### Build a Client-Centric Organization Focused on Multi-Channel Distribution

We have chosen to utilize independent channels of distribution. We believe that supporting independent advice is an attractive distribution model. Our focus is on effective execution of a multi-channel distribution approach. We now have tactical plans in place in three broad distribution categories: the advisor channel, national accounts and institutional. In each channel, we strive to make it easy to do business with AGF.

### Pursue Strategic Acquisitions to Supplement Organic Growth

Our organic growth will be supplemented by acquisitions in the Investment Management Operations Segment. We have a disciplined acquisition approach: AGF targets long-term after-tax return on investments in excess of 15% per annum. We look for acquisitions that have a financial as well as a strategic rationale, such as our investments in P.J. Doherty and Cypress.

Our approach to managing capital requires us to consider acquisitions in the context of various other uses of capital, including share repurchases, dividends and reinvesting in the business.

## Assets Under Management

The primary sources of revenue for AGF's investment management operations are management and advisory fees. The amount of management and advisory fees is dependent 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 based on a specified percentage of the average daily net asset value of the respective fund. In addition, we earn fees on our institutional and private investment management 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 years ended November 30, 2004 and 2003:

(\$ millions) Years ended November 30	2004	2003	% change
Mutual fund AUM, beginning of year	\$ 23,168	\$ 23,549	(1.6%)
Gross sales of mutual funds	2,586	2,271	13.9%
Redemption of mutual funds	(4,772)	(4,019)	18.7%
Net mutual fund redemptions	(2,186)	(1,748)	25.1%
Market appreciation of fund portfolios	1,765	1,367	29.1%
Mutual fund AUM, end of year	\$ 22,747	\$ 23,168	(1.8%)
Institutional and PIM AUM	8,621	5,049	70.7%
Total AUM	\$ 31,368	\$ 28,217	11.2%
Average daily mutual fund AUM for the year	\$ 23,759	\$ 22,203	7.0%

Total AUM increased by 11.2% on the strength of growth related to institutional and private investment management AUM. The acquisitions of P.J. Doherty and Cypress were the primary contributors to the year-over-year growth.

Mutual fund AUM were down slightly on a year-over-year basis, however, average daily mutual fund AUM were up 7.0% and a major contributor to the improved revenues in 2004 as compared with 2003.

Details of mutual fund net sales and investment performance were as follows:

#### Net Sales

Net sales are a key performance indicator for our Investment Management Operations segment. AGF experienced net redemptions of \$2.2 billion during fiscal 2004, falling short of our goal of generating positive net sales. Portfolio rebalancing by three institutional clients contributed \$299.9 million to these net redemptions. AGF's lack of income-oriented mutual funds, which were in favour with investors during our fiscal 2004, contributed to the weakness in gross sales. The strategic refocusing completed in the third quarter of fiscal 2004 included a comprehensive product audit and the launch of new funds in early 2005. The overall goal of the refocusing was to improve gross sales and reduce redemptions.

#### Investment Performance

Stock market performance influences the level of AUM. During the year ended November 30, 2004, the Canadian-dollar-adjusted S&P 500 Index rose 1.8%, the Canadian-dollar-adjusted NASDAQ Index fell 1.9% and the S&P/TSX Composite Index rose 14.9%. The total market appreciation of our mutual fund assets for the year ended November 30, 2004 divided by the average daily mutual fund AUM for the year equals 7.4%.

The impact of the U.S. dollar decline relative to the Canadian dollar on the market value of AGF mutual funds since November 30, 2003 has been a reduction in AUM of approximately \$0.5 billion.

Consistent with the rise in the stock market, market appreciation net of management fees increased mutual fund AUM by \$1.8 billion since November 30, 2003. For the five-year period ended November 30, 2004, 62% of ranked AUM performed above median. Over the 10-year period ended November 30, 2004, 75% of ranked AUM performed above median.

Strong market performance combined with solid performance by our fund managers has served to preserve the overall mutual fund AUM position as at November 30, 2004 compared with November 30, 2003.

The composition of our mutual fund AUM is summarized as follows:

Percentage of Total Mutual Fund AUM at November 30	2004	2003
Domestic equity funds	30.1%	26.4%
U.S. and international equity funds	44.6%	47.3%
Domestic balanced funds	11.3%	11.4%
U.S. and international balanced funds	2.5%	3.0%
Domestic fixed income funds	9.5%	9.8%
International fixed income funds	2.0%	2.1%
	100.0%	100.0%

The change in the composition of mutual fund AUM in 2004 was due to the appreciation of the Canadian dollar relative to the U.S. dollar and the higher level of net redemptions of U.S. and international equity funds relative to other types of funds.

The composition of AUM has direct influence on our revenues. Generally, equity funds have higher management fees than fixed income funds and international funds have higher management fees than domestic funds.

## Segment Results and KPIs

The table below highlights the Investment Management Operations segment results for the years ended November 30, 2004 and 2003.

(\$ millions) Years ended November 30	2004	2003	% change
Revenue			
Net management and advisory fees	\$ 433.7	\$ 405.7	6.9%
Administration fees and other revenue	45.9	34.3	33.9%
Deferred sales charges	39.1	40.5	(3.6%)
Investment income	1.6	1.1	54.2%
	520.3	481.6	8.0%
Expenses			
Selling, general and administrative	151.9	89.1	70.4%
Trailing commissions	112.5	102.8	9.4%
Investment advisory fees	30.4	30.6	(0.6%)
Writedown of short-term investments	0.6	0.6	(4.7%)
	295.4	223.1	32.4%
EBITDA <sup>1</sup>	224.9	258.5	(13.0%)
Amortization	144.7	140.0	3.3%
Income before taxes and non-segmented items	\$ 80.2	\$ 118.5	(32.4%)

<sup>1</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures - EBITDA" section.

### Revenue

Revenue for the Investment Management Operations segment increased 8.0% over the previous year, with changes in the categories being:

#### Net Management and Advisory Fees

The rise in average daily mutual fund AUM in fiscal 2004 of 7.0% directly contributed to a 6.9% increase in net management and advisory fee revenue from the same period a year ago.

Management and advisory fee revenue in fiscal 2004 is reported net of distribution fees paid to limited partnerships and other third-party financing entities of \$16.3 million (\$18.2 million in 2003).

#### Administration Fees and Other Revenue

Administration fees and other revenue, which includes fees earned on Harmony, institutional and private wealth management AUM, increased by 33.9% in the year ended November 30, 2004, as compared with the same period in the prior year. There was strong growth in Harmony revenues, which was augmented by the acquisitions of P.J. Doherty and Cypress in the year.

#### Deferred Sales Charges

We receive Deferred Sales Charges upon redemption of securities sold on the contingent DSC or "back-end" commission basis for which we 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 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 increased 32.4% over the previous year. Changes in specific categories are described in the discussion that follows.

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

SG&A includes \$31.0 million of expense related to the agreement with the OSC. Excluding this amount, SG&A for 2004 was \$120.9 million, representing a \$31.8 million increase in SG&A expenses in 2004 as compared with 2003. This increase is due to costs associated with the continued building of AGF's investment management and sales teams, non-recurring compensation expenses related to the reorganization of the sales and marketing functions and the inclusion of operating expenses related to the newly acquired P.J. Doherty and Cypress.

### **Trailing Commissions**

Trailing commissions paid to investment dealers are dependent 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. Trailing commissions as a percentage of average daily mutual fund AUM increased to 0.473% for the 12 months ended November 30, 2004 from 0.463% in the comparable 2003 period, due to an increased proportion of mutual fund AUM sold on a front-end basis.

### **Investment Advisory Fees**

External investment advisory fees remained relatively constant on a year-over-year basis as the average AUM managed by sub-advisors remained constant on a year-over-year basis.

## EBITDA

EBITDA for the Investment Management Operations segment were \$224.9 million for the year ended November 30, 2004, a decrease of 13.0% from \$258.5 million for the same period of fiscal 2003. Excluding the impact of the agreement with the OSC, EBITDA for the year ended November 30, 2004 was \$255.9 million, declining by 1.0% over 2003.

## Amortization

The largest item in this category is amortization of deferred selling commissions. Amortization also includes amortization of property, equipment and other intangible assets, customer contracts, relationships and investment advisory contracts.

We internally finance 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.

Amortization expense related to deferred selling commissions was \$121.7 million in 2004 as compared with \$117.0 million in 2003. The year-over-year increase is reflective of the prior year's mix in sales on a DSC basis as compared to sales on a front-end basis. Front-end load sales result in us paying no upfront commission to the advisor.

During fiscal 2004, we paid \$54.5 million in selling commissions, compared with \$45.8 million in 2003. As at November 30, 2004, the unamortized balance of deferred selling commissions financed stood at \$327.6 million, a decrease of \$67.2 million from the prior-year balance of \$394.8 million. The contingent deferred sales charges that would be received if all of the DSC securities were redeemed at November 30, 2004 were estimated to be approximately \$442.7 million (2003 - \$525.3 million).

## Segment Outlook

Net management and advisory fees are directly impacted by market appreciation or depreciation of fund portfolios and net fund sales or redemptions. Our current expectation is that these factors will combine to keep AUM relatively flat on a year-over-year basis.

We expect 2005 SG&A to be consistent with the amounts incurred in fiscal 2004, excluding the expense related to the agreement with the OSC, as we commit the required resources to execute our stated strategy. We believe that it is prudent to incur these added selling and marketing costs to take advantage of compelling opportunities in the marketplace.

Although we experienced a high level of net mutual fund redemptions during fiscal 2004, management believes that the following factors position us for future asset growth and financial success:

- Financial strength with strong cash flows that will allow us to return value to shareholders and pursue strategic acquisitions.
- 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 strengthening advisor relationships.
- The inclusion of two strategic acquisitions. We 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. The acquisition of Cypress also creates operational synergies, such as the ability to offer new income-oriented products.
- Continued strong investment performance of the AGF fund portfolios. Over a 10-year period, 75% of ranked mutual fund AUM have 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.
- Our new income product offerings address current investor preference for yield.

## Fund Administration Operations

This segment operates in Canada as Unisen Inc. ("Unisen") and in the United Kingdom as Investmaster Group Limited ("Investmaster"). Unisen composes the majority of the segment's results.

### Business and Industry Profile

We offer technology solutions and business process services to investment firms and institutional clients, including the AGF group of mutual funds. Unisen was formed in 2002 by the combination of AdminSource Inc., The Toronto-Dominion Bank third-party administration business ("TD Administration"), Jewelstone Systems Inc. ("Jewelstone") and the fund administration operations of AGF.

Unisen holds a strong position in the outsourcing market and serves directly or through other third-party administrators, approximately 170 investment companies and financial institutions. There has been a trend toward outsourcing investment fund back office processing in the United States and Europe. In the Canadian marketplace, although investment funds have been slower to embrace outsourcing, increased acceptance may provide opportunities for the market to grow.

Investmaster provides IT solutions to the United Kingdom's wealth management and institutional brokering sectors and its technology now handles 25% of the London Stock Exchange's private client volumes.

## Fund Administration Operations Segment Strategy

Unisen's strategic priority is to be the provider of choice for administration services and technology to the investment services industry in Canada and other selected markets. Primary strategic initiatives include:

- Enhancing client experience through service quality and innovative products.
- Investing in the Unitrax IT platform to build upon its market leadership.
- Expanding the scope of services beyond traditional fund structures.
- Creating an organizational culture that emphasizes personal accountability, commitment to service excellence and cost containment.

Unisen operates independently from the AGF Group and is guided by its own management team. Over the past two years, Unisen has achieved a number of significant accomplishments that have contributed to the scalable and efficient platform that exists today. The number of transfer agency IT systems has been reduced from four to two. Six operating locations were combined into one corporate headquarters in Mississauga, Ontario. In conjunction with our organizational restructuring, significant focus has been placed on business processes that have resulted in improved controls, operational efficiencies and, more importantly, reduced costs of servicing related and third-party clients. Unisen is well-positioned to meet its strategic priorities in the years to come.

Investmaster's business strategy is to continue to provide a high level of service and support to existing customer relationships and build on this reputation to expand market share.

## Segment Results and KPIs

The table below highlights the Fund Administration Operations segment results for the years ended November 30, 2004 and 2003.

(\$ millions) Years ended November 30	2004	2003	% change
Interest, administration fees and other revenue	\$ 129.1	\$ 128.5	0.5%
Selling, general and administrative expenses	114.9	121.7	(5.6%)
EBITDA <sup>1</sup>	14.2	6.8	109.0%
Amortization	15.5	14.5	7.1%
Loss before income taxes and non-segmented items	\$ (1.3)	\$ (7.7)	83.1%

<sup>1</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures – EBITDA" section.

### Revenue

Revenue for the Fund Administration Operations segment increased 0.5% from \$128.5 million in fiscal 2003 to \$129.1 million in 2004. The increases are primarily attributable to the acquisition of Consort Information Systems Limited ("CISL") completed in April 2003, which resulted in an expanded customer base for Investmaster offset by slightly lower year-over-year revenues at Unisen.

### Selling, General and Administrative Expenses

The decrease in SG&A was due to cost savings at Unisen of over \$9.0 million resulting from the integration of our third-party fund administration operations onto one IT platform offset in part by an increase in Investmaster's SG&A as a result of the acquisition of CISL. In addition, Unisen recorded a \$3.0 million charge related to facilities that they vacated during the year. The charge represents our estimate of the difference between the aggregate future lease obligations and the recovery from subleasing.

### EBITDA

EBITDA for the Fund Administration Operations segment more than doubled to \$14.2 million in fiscal 2004 on the strength of Unisen's results, compared with \$6.8 million in 2003.

### Amortization of Customer Contracts and Relationships

Amortization of customer contracts and relationships amounted to \$6.0 million for the year ended November 30, 2004, a decrease of \$0.2 million or 3.2% from the corresponding period in 2003.

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

Amortization of property, equipment and other intangible assets includes the amortization over a period of five years of software acquired as part of the Jewelstone 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 was 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.

## Segment Outlook

Industry trends such as consolidation of fund companies, preference towards "in sourcing" by larger investment fund firms and the popularity of non-fund products pose near-term challenges to business growth. As a result, we anticipate Unisen's revenue for the coming year will be lower than 2004. Notwithstanding these factors, with its strong operational foundation and a significant market position in Canada, we believe Unisen is well-positioned for long-term growth and as a result of operational efficiencies and restructuring activities, we should be able to maintain margins in this segment of the business.

## Trust Company Operations

### Business and Industry Profile

Through AGF Trust we offer financial solutions including mortgages, investment loans, RSP loans, and both non-registered and registered term deposits. Our products are distributed through independent financial advisors as well as mortgage brokers. The mortgage broker channel has experienced strong growth. Borrowers have chosen to deal with mortgage brokers to take advantage of independent advice and competitive rates, while lenders have provided mortgages in this channel to reduce distribution costs. Advisors continue to broaden their suite of products as they compete for relationships with banks.

## Trust Company Operations Segment Strategy

We strive to earn a strong financial return as well as maximize synergies with the Investment Management Operations segment. Specific strategies include:

- Aggressive product marketing.
- Providing tailored products that directly serve advisor needs.
- Disciplined loan-underwriting standards to minimize credit losses.
- Expense management initiatives to keep cost stable while assets grow.

In fiscal 2004, we created a dedicated sales staff to promote investment lending and mortgage products, and as a result the loan portfolio increased significantly in 2004. Resources were also dedicated to better support AGF investment management wholesalers with the aim to make it easier for AGF wholesalers to serve their clients and promote trust products to advisors.

AGF Trust will continue to maximize operational synergies with our investment management business through trust products that assist financial advisors in broadening and deepening their relationship with their clients. In addition, we will focus on expanding returns by increasing our consumer and mortgage loan portfolios.

## Segment Results and KPIs

The table below highlights our operating segment results for the years ended November 30, 2004 and 2003.

(\$ millions) Years ended November 30	2004	2003	% change
Interest, administration fees and other revenue	\$ 42.6	\$ 35.9	18.7%
Expenses			
Selling, general and administrative expenses	10.8	8.9	20.6%
Interest on deposits	18.1	18.6	(2.4%)
Provision for loan losses	2.6	2.0	29.8%
	31.5	29.5	6.7%
EBITDA <sup>1</sup>	11.1	6.4	74.1%
Amortization	1.2	0.9	31.9%
Income before taxes and non-segmented items	\$ 9.9	\$ 5.5	81.1%

<sup>1</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures – EBITDA" section.

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

### Revenue

Revenue increased by 18.7% in fiscal 2004 as compared with 2003, with the increase being attributable to a 32.7% year-over-year increase in the mortgage loan portfolio and a 51.1% year-over-year increase in the consumer loan portfolio.

#### Selling, General and Administrative Expenses

SG&A increased by 20.6% in fiscal 2004 as compared with 2003, as a result of increased compensation expense directly related to the increases in the loan portfolios. Much of the compensation of our staff is variable and related to increases in the loan portfolios.

#### Provision for Loan Losses

The provision for loan losses increased by 29.8% in the year as compared with 2003, with the increase attributable to the increase in our loan portfolio.

### EBITDA

The strong revenue growth, coupled with the fact we were able to increase margins on our loan portfolios, served to increase EBITDA by 74.1% in 2004, as compared with 2003.

## Operational Results

The table below highlights our key operational measures for the segment for the years ended November 30, 2004 and 2003.

(\$ millions) Years ended November 30	2004	2003	% change
Mortgage loan assets	\$ 284.6	\$ 214.5	32.7%
Consumer loan assets	422.7	279.8	51.1%
Other assets	121.7	96.1	26.6%
Total assets	\$ 829.0	\$ 590.4	40.4%
Net interest income <sup>1</sup>	\$ 19.6	\$ 13.4	46.3%
Other income	3.4	2.6	30.8%
Non-interest expenses	10.5	8.5	23.5%
Provision for loan losses	2.6	2.0	30.0%
Income before taxes and non-segmented items	\$ 9.9	\$ 5.5	81.1%
Efficiency ratio <sup>2</sup>	45.7%	53.1%	
Assets-to-capital multiple	15.3	14.3	

<sup>1</sup> Net interest income above is reported net of agent commissions.

<sup>2</sup> The efficiency ratio is calculated by dividing non-interest expenses by the total of net interest income and fee income.

### Loan Asset Growth

Loan assets experienced substantial growth during fiscal 2004. RSP loan advances were strong as financial advisors continued to make use of AGF Trust's internet-based loan application system. New investment loan products contributed to overall growth in loan advances. Net conventional non-accrual loans were \$0.7 million, or 0.3% of the mortgage portfolio.

### Efficiency Ratio

The efficiency ratio (non-interest expenses divided by the total of net interest income and fee income) is a key performance indicator utilized to ensure expenses are contained as the Trust business grows. The efficiency ratio improved to 45.7% in fiscal 2004 from 53.1% during fiscal 2003, meeting our goal of having a ratio below 50%. The improvement in the efficiency ratio resulted from strong cost discipline and increased volumes. AGF Trust's administrative infrastructure has proven capable of supporting larger scale.

### Balance Sheet

Our balance sheet has grown significantly during the past year, with our financial position remaining solid. Total assets increased 40.4% to \$829.0 million at November 30, 2004 from the prior year-end. Our assets-to-capital multiple stood at 15.3 times, up from 14.3 times at November 30, 2003, but well below our authorized multiple of 17.5 times. Our risk-based capital ratio was 10.2% at November 30, 2004. We issued \$5.0 million in subordinated debt during the year, in order to support increased asset levels. Liquid assets were high, with \$107.4 million in cash and short-term investments at November 30, 2004, ensuring that we can easily meet the higher loan volume funding requirements during the 2005 RSP season.

### Loan Portfolio Credit

The general allowance for mortgage loan losses was increased during the year to \$1.0 million from \$0.8 million. The general allowance for consumer loan losses was increased to \$2.6 million from \$1.9 million a year ago.

Approximately two-thirds of mortgage loan assets are insured. We have strong security for non-RSP investment loans and loan losses during the history of the program have been minimal.

## Segment Outlook

Volume growth during 2005 should allow us to meet our growth targets. The 2005 RSP season has started strongly for the Trust Company, with lending volumes above last year's pace.

The Trust Company's presence in the mortgage broker space has been enhanced through targeted marketing campaigns and the hiring of business development managers specifically for the mortgage broker channel.

A sustained period of positive mutual fund returns, and a low interest rate environment, should be supportive of investment lending products.

Management believes the company is on track to solidify its position as a trusted alternative to traditional banks for the lending products that it distributes.

## Liquidity and Capital Resources

Cash flow generated from operating activities (before net change in non-cash balances related to operations) was \$207.8 million for the year ended November 30, 2004, compared with \$208.5 million in the prior year.

Our free cash flow (defined as cash flow from operations less selling commissions paid) was \$153.3 million for the year ended November 30, 2004, compared with \$162.8 million in the prior year. In fiscal 2004, we paid \$54.5 million in selling commissions, which were deferred for accounting purposes, compared with \$45.8 million in 2003. Our free cash flow was used primarily to fund the following:

(\$ millions) Years ended November 30	2004	2003
Decrease in long-term debt	\$ 54.2	\$ 114.0
Payment of dividends	37.5	27.2
Purchase of property, equipment and other intangible assets	11.4	14.5
Repurchase of AGF Class B non-voting shares for cancellation	37.4	8.6
Acquisitions	20.0	4.0
	\$ 160.5	\$ 168.3

Our strong free cash flow during fiscal 2004 permitted a substantial reduction of long-term debt by \$54.2 million. As a result, the long-term debt-to-equity ratio decreased significantly from 0.13:1 as at November 30, 2003 to 0.08:1 as at November 30, 2004.

During fiscal 2004, we used \$37.4 million of free cash flow to repurchase 2,099,800 AGF Class B non-voting shares at an average price of \$17.83 per share.

Consolidated cash and cash equivalents amounted to \$118.8 million as at November 30, 2004, up from \$88.9 million a year ago. Most of the increase is due to an increase in cash in the Trust Company Operations segment.

We have a 10-year prime rate-based revolving term loan facility to a maximum of \$150.0 million, of which \$106.7 million was available to be drawn as of November 30, 2004. This 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.

## Off Balance Sheet Arrangements

Selling commissions paid on certain sales of mutual fund securities of the AGF funds made on the DSC basis ("DSC securities") were up until 1997 financed by limited partnerships held by third-party investors as described in Note 10 of our consolidated financial statements. Up to November 30, 2004, such limited partnerships have financed selling commissions of approximately \$440 million in respect of such DSC securities. We are obligated to pay the relevant limited partnership an annual fee based on the net asset value of DSC securities. The limited partnerships also receive any deferred sales charges resulting from the redemption of such securities. These obligations continue as long as such DSC securities remain outstanding except for certain of the limited partnerships, in which case the obligation terminates at various dates from December 31, 2006 to December 31, 2020. For certain limited partnerships the obligation is secured by our mutual fund management contracts to the extent of the particular obligation.

We are responsible for the management and administration of the limited partnerships. These services are provided in the normal course of operations and are recorded at the amount of consideration agreed to by the parties. The amount of fees received in 2004 was \$830,000 (2003 - \$943,000). As at November 30, 2004, the net asset value of DSC securities financed by the limited partnerships was \$2.2 billion (2003 - \$2.7 billion).

## Contractual Obligations

The table below is a summary of our contractual obligations at November 30, 2004. See also Notes 7 & 21 of the consolidated financial statements.

(\$ millions)	Total	2005	2006– 2007	2008– 2009	Thereafter
Long-term debt	\$ 112.0	\$ 43.7	\$ 11.3	\$ 16.2	\$ 40.8
Capital lease obligations	2.3	0.8	1.5	–	–
Operating leases	58.4	6.9	13.1	8.6	29.8
Purchase obligations	55.3	6.7	11.7	7.7	29.2
Total contractual obligations	\$ 228.0	\$ 58.1	\$ 37.6	\$ 32.5	\$ 99.8

In addition to the contractual obligations detailed above, the following obligations exist that vary depending upon business volume and other factors:

- The AGF Trust Company is required to pay depositors amounts representing principal and interest on funds on deposit.
- A portion of our selling commissions paid on a DSC basis have been financed by limited partnerships held by third-party investors. As at November 30, 2004, the net asset value of DSC securities financed by the limited partnerships was \$2.2 billion and the amount paid to these partnerships in 2004 was \$16.3 million.
- We pay trailing commissions to investment advisors based on AUM of their respective clients. This obligation varies based on sales and redemptions, and in 2004 we paid \$112.5 million in trailing commissions.

## Intercompany and Related Party Transactions

The Company has entered into a number of cost sharing and services agreements with its subsidiaries in the areas of transaction processing, mutual fund administration, information technology services, and premises. These transactions are eliminated on consolidation.

The Company has entered into certain transactions with entities, the partners or senior officers, some of which are directors of the Company. During 2004, total amounts paid by the Company to these related parties in aggregate was \$0.1 million (2003 - \$0.1 million).

## Dividends

The holders of the AGF Class B non-voting shares are entitled to receive cash dividends. Dividends are paid in equal amounts per share on all the AGF Class B non-voting shares and all the AGF Class A voting common shares at the time outstanding, without preference or priority of one share over another. No dividends may be declared in the event that 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 the Class B shareholders shall have the right to elect to receive part or all of such dividend in the form of a stock dividend. In determining whether a dividend in AGF Class B non-voting shares is substantially equal to a cash dividend, the Board of Directors may make a determination based on the weighted average price at which the AGF Class B non-voting shares traded on the Toronto Stock Exchange during the 10 trading days immediately preceding the record date applicable to such dividend.

The following table sets forth dividends paid by AGF on the AGF Class B non-voting shares and the AGF Class A voting common shares for the periods indicated:

Years ended November 30	2004	2003	2002	2001	2000 <sup>1</sup>
Per share	\$ 0.41	\$ 0.30	\$ 0.26	\$ 0.22	\$ 0.18

<sup>1</sup> Restated to reflect the two-for-one share subdivision of the AGF Class B non-voting shares and AGF Class A voting common shares on August 29, 2000.

We review our dividend distribution policy on a quarterly basis, taking into consideration 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 November 30, 2004. For additional detail, see Note 12 and 13 to the 2004 Consolidated Financial Statements.

<b>Common Shares</b>	
AGF Class A voting common shares	57,600
AGF Class B non-voting shares	90,739,463
<b>Stock Options</b>	
Outstanding options	3,566,604
Exercisable options	1,610,949

## Government Regulations

### Government Regulations – Investment Management Operations

AGFFI is subject to regulation by the Ontario Securities Commission ("OSC") and other provincial securities regulatory authorities. AGFFI is currently required to be registered as an investment counsel and portfolio manager in order to conduct its business. We also maintain registration as a mutual fund dealer in certain provinces where it is required. We are also registered as a Commodity Trading Manager. AGF PIM is registered as an investment counsel and portfolio manager. Application must be made annually to renew these registrations. The Securities Act (Ontario) and certain other provincial securities legislation prescribes educational and proficiency standards for individuals engaged in making investment decisions and trading in

mutual fund securities, capital requirements to protect against insolvency, the filing of financial statements and reports and the maintenance of contingency funds administered by specified trust companies. Additionally, AGF Securities (Canada) Limited, a wholly owned subsidiary of AGF, is registered as a securities dealer with the Investment Dealers Association, which is a self-regulatory organization. AGF Securities Inc., also a wholly owned subsidiary of AGF, is registered with the Securities and Exchange Commission in the United States.

In its capacity as investment counsel and portfolio manager, AGFFI is subject to conflict of interest regulations made pursuant to the Securities Act (Ontario) and certain other provincial securities legislation. Among other things, these regulations impose limitations on the ability of AGFFI to advise or make recommendations with respect to its own securities or securities of a related or connected issuer. AGFFI is also subject to certain restrictions that are imposed by applicable provincial securities legislation on advertising and sales incentives.

Each of the Funds must file each year an annual information form and simplified prospectus in every province and territory of Canada and obtain a receipt for the same from provincial securities regulatory authorities in order that the securities of the Fund may be sold in each province and territory. AGF Canadian Growth Equity Fund Limited must file an offering document annually in Japan in order to qualify its shares for sale in that country. The Goldrings Group of Funds (off-shore mutual funds domiciled in Ireland) must file its offering documents annually in Ireland as well as in Japan in order to qualify for distribution in Japan. Each Fund in the AGF Group of Funds, as well as AGFFI as manager, is liable for any misrepresentation in the offering documents of the Funds, and similarly, AGF International Advisors Company Limited is responsible for the Goldrings Group of Funds.

Pursuant to securities legislation in certain of the provinces of Canada, none of the Funds can make portfolio investments in the substantial securityholders of such Funds, in AGF or in corporations in which the Funds' directors or officers or their substantial securityholders have a significant interest.

More recently, a number of regulatory initiatives have been introduced, most notably a new proposal on fund governance and the OSC's introduction of the Fair Dealing Model. As well, we are participating in a number of industry- and OSC-initiated group consultations. Both of these initiatives are significant proposals and we are considering them carefully.

### Government Regulations – Trust Operations

Our Trust Company operations are incorporated federally and are governed by the Trust and Loan Companies Act (Canada) (the "Act") and by applicable provincial legislation where it carries on business. This legislation specifies the powers of a trust company and imposes investment restrictions. Most significantly, the statutes provide for annual and other reports to be filed on the financial condition of the trust company; periodic examinations of the company's affairs; restrictions on transactions with related parties; corporate governance provisions; and minimum capital adequacy standards based on the total assets and risk-weighted assets of the trust company. The assets-to-capital multiple at November 30, 2004 was 15.3 times and the risk-based capital ratio was 10.2%. AGF Trust is supervised by the federal Office of the Superintendent of Financial Institutions.

AGF Trust is a member of the Canada Deposit Insurance Corporation ("CDIC"), which provides a statutory scheme for the insurance of certain qualifying deposits made and payable in Canada in Canadian currency. CDIC has also established by-laws, which, among other requirements, require AGF Trust to operate under certain standards of sound business and financial practices.

## Future Accounting and Reporting Changes

The following is a summary of accounting and reporting changes the Company expects to adopt in future periods. See Note 2 to our Consolidated Financial Statements for details of future accounting and reporting changes.

### Consolidation of Variable Interest Entities

The Canadian Accounting Standards Board issued a revised guideline on the consolidation of variable interest entities, which will impact us in the first quarter of fiscal 2005. We are currently reviewing Limited Partnership Financings as described in the "Off Balance Sheet Arrangements" section to determine if any of these relationships would require consolidation. Consolidation of these entities would not have a significant impact on net income.

### Financial Instruments, Hedges and Comprehensive Income

The CICA has issued two proposed accounting standards: Financial Instruments – Recognition and Measurement and Hedges, and one new accounting standard – Comprehensive Income. These standards are substantially harmonized with U.S. GAAP and are effective for us beginning with the first quarter of fiscal 2007. The principal impact of the standards are detailed below.

Comprehensive income will be a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income will be added to our primary Consolidated Financial Statements.

Financial assets will be required to be classified as available for sale, held to maturity, or trading.

For fair value hedges, where we are hedging changes in the fair value of assets, liabilities or firm commitments, the change in the value of derivatives and hedged items will be recorded through income. For cash flow hedges where we are hedging the variability in cash flows related to variable rate assets, liabilities or forecasted transactions, the effective portion of the changes in the fair values of the derivative instruments will be recorded through comprehensive income until the hedged items are recognized in income.

## Fourth Quarter Analysis

### Summary of Consolidated Operating Results

The table below highlights our results for the three months ended November 30, 2004 and 2003:

(\$ millions, except per share amounts) Three months ended November 30	2004	2003	% change
Revenue	\$ 156.6	\$ 153.9	1.7%
Expenses	134.8	90.5	49.1%
EBITDA <sup>1</sup>	21.8	63.4	(65.6%)
Amortization	39.4	40.7	(3.2%)
Interest expense	1.1	2.2	(47.6%)
Income taxes	(10.6)	46.4	(122.8%)
Loss	\$ (8.1)	\$ (25.9)	(68.6%)
Cash flow from operations <sup>2</sup>	\$ 15.4	\$ 50.0	(69.3%)
Per share amounts - diluted			
Cash flow from operations	\$ 0.17	\$ 0.54	(68.5%)
Earnings	\$ (0.09)	\$ (0.27)	(66.7%)
Return on equity	(3.5%)	(11.2%)	

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

<sup>2</sup> Cash flow from operations before net change in non-cash balances related to operations.

Revenue for the fourth quarter ended November 30, 2004 was up 1.7% from the same period in 2003, with the Investment Management Operations segment contributing an increase of \$4.2 million and the Trust Company Operations segment contributing an increase of \$2.5 million. These increases were offset by a reduction in revenues in the Fund Administration Operations segment of \$5.4 million.

Expenses in the fourth quarter ended November 30, 2004 increased by \$44.4 million over the same period a year ago, with the change attributable to the \$31.0 million expense related to the OSC agreement and higher SG&A associated with the acquisition of P.J. Doherty and Cypress, as well as non-recurring compensation expenses related to the reorganization of the sales and marketing functions and a \$3.0 million provision recorded in the Fund Administration Operations segment related to vacated premises.

Cash flow from operations and EBITDA were lower for the quarter ended November 30, 2004, compared with the respective quarter in 2003, predominantly due to higher expenses as noted above.

Our income tax benefit for the three months ended November 30, 2004 was \$10.6 million, as compared to our income tax expense of \$46.4 million in the three months ended November 30, 2003. In April 2004, we acquired net tax-related benefits of \$15.7 million, of which \$5.0 million were recognized in the three months ended November 30, 2004. The tax expense recorded in the fourth quarter of 2003 included a \$40.2 million charge related to the change in future Ontario provincial income tax rates.

The net effect of these items resulted in a reduced loss in the fourth quarter of 2004 as compared with the corresponding quarter in 2003. The details of the 2004 fourth quarter results for each business segment follow.

## Investment Management Operations

### Assets Under Management

The following table illustrates the composition of the changes in mutual fund AUM during the three months ended November 30, 2004 and 2003:

(\$ millions)			
Three months ended November 30	2004	2003	% change
Mutual fund AUM, beginning of period	\$ 22,989	\$ 22,987	0.0%
Gross sales of mutual funds	534	596	(10.4%)
Redemption of mutual funds	(1,374)	(1,010)	36.0%
Net mutual fund redemptions	840	414	25.6%
Market appreciation of fund portfolios	598	595	0.5%
Mutual fund AUM, end of period	\$ 22,747	\$ 23,168	(1.8%)
Institutional and PIM AUM	8,621	5,049	70.7%
Total AUM	\$ 31,368	\$ 28,217	11.2%
Average daily mutual fund AUM for the period	\$ 22,753	\$ 23,018	(1.2%)

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

Portfolio rebalancing by an institutional client contributed \$150 million to net redemptions in the fourth quarter of 2004. During the three months ended November 30, 2004, the Canadian-dollar-adjusted S&P 500 Index fell 3.9%, the Canadian-dollar-adjusted NASDAQ Index rose 3.1% and the S&P/TSX Composite Index rose 7.4%.

The impact of the U.S. dollar decline relative to the Canadian dollar on the market value of AGF mutual funds since August 31, 2004 has been a reduction in AUM of approximately \$0.6 billion.

Net redemptions, partially offset by a \$598 million increase in AUM resulting from portfolio returns, contributed to a decline of mutual fund AUM from \$23.0 billion at August 31, 2004 to \$22.7 billion at November 30, 2004.

### Financial and Operational Results

The table below highlights the Investment Management Operations segment results for the three months ended November 30, 2004 and 2003.

(\$ millions)	2004	2003	% change
<b>Three months ended November 30</b>			
Revenue			
Net management and advisory fees	\$ 102.4	\$ 103.6	(1.1%)
Administration fees and other revenue	13.2	9.6	37.7%
Deferred sales charges	10.5	9.2	14.9%
Investment income	0.5	0.0	n/m
	\$ 126.6	\$ 122.4	3.5%
Expenses			
Selling, general and administrative	\$ 74.6	\$ 26.7	179.6%
Trailing commissions	27.4	26.7	2.7%
Investment advisory fees	6.8	7.5	(9.3%)
Writedown of short-term investments	0.6	-	n/m
	\$ 109.4	\$ 60.9	79.5%
EBITDA <sup>1</sup>	\$ 17.2	\$ 61.5	(72.1%)
Amortization	35.2	35.8	(1.6%)
Income (loss) before taxes and non-segmented items	\$ (18.0)	\$ 25.7	(170.2%)

<sup>1</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures - EBITDA" section.

## Fund Administration Operations

### Financial and Operational Results

The table below highlights the Fund Administration Operations segment results for the three months ended November 30, 2004 and 2003.

(\$ millions) Three months ended November 30	2004	2003	% change
Administration fees and other revenue	\$ 31.6	\$ 37.0	(14.7%)
Selling, general and administrative expenses	30.1	37.6	(19.8%)
EBITDA <sup>1</sup>	1.5	(0.6)	345.1%
Amortization	3.9	4.3	(10.1%)
Loss before taxes and non-segmented items	\$ (2.4)	\$ (4.9)	(51.9%)

<sup>1</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures - EBITDA" section.

## Trust Company Operations

### Financial and Operational Results

The table below highlights the Trust Company Operations segment results for the three months ended November 30, 2004 and 2003.

(\$ millions) Three months ended November 30	2004	2003	% change
Interest, administration fees and other revenue	\$ 11.7	\$ 9.2	27.5%
Expenses			
Selling, general and administrative expenses	2.9	2.0	43.3%
Interest on deposits	5.3	4.5	17.4%
Provision for loan losses	0.5	0.3	64.5%
	8.7	6.8	27.7%
EBITDA <sup>1</sup>	3.0	2.4	26.8%
Amortization	0.3	0.2	75.5%
Income before taxes and non-segmented items	\$ 2.7	\$ 2.2	22.5%

<sup>1</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures - EBITDA" section.

## Selected Quarterly Information

(\$ millions, except per share amounts) For the three month period ended	Nov. 30, 2004	Aug. 31, 2004	May 31, 2004	Feb. 29, 2004
Revenue	\$ 156.6	\$ 158.2	\$ 166.0	\$ 159.1
Cash flow from operations <sup>1</sup>	15.4	62.4	68.4	61.6
EBITDA <sup>2</sup>	21.8	76.2	79.0	75.5
Pretax income	(18.7)	33.2	36.9	33.5
Net income (loss)	(8.1)	27.6	34.0	23.8
Net income (loss) per share				
Basic	\$ (0.08)	\$ 0.30	\$ 0.37	\$ 0.26
Diluted	\$ (0.09)	\$ 0.30	\$ 0.37	\$ 0.26
Cash flow from operations per share <sup>1</sup>				
Basic	\$ 0.17	\$ 0.69	\$ 0.75	\$ 0.67
Diluted	\$ 0.17	\$ 0.68	\$ 0.74	\$ 0.67
Weighted average fully diluted shares	91,798,233	91,941,879	92,117,368	92,230,930

(\$ millions, except per share amounts) For the three month period ended	Nov. 30, 2003	Aug. 31, 2003	May 31, 2003	Feb. 28, 2003
Revenue	\$ 153.9	\$ 147.4	\$ 140.8	\$ 158.7
Cash flow from operations <sup>1</sup>	50.0	55.8	50.8	51.9
EBITDA <sup>2</sup>	63.4	72.4	66.7	81.8
Pretax income	20.6	30.4	25.9	40.3
Net income (loss)	(25.8)	21.8	19.6	28.4
Net income (loss) per share				
Basic	\$ (0.28)	\$ 0.24	\$ 0.21	\$ 0.31
Diluted	\$ (0.27)	\$ 0.23	\$ 0.21	\$ 0.30
Cash flow from operations per share <sup>1</sup>				
Basic	\$ 0.55	\$ 0.61	\$ 0.55	\$ 0.57
Diluted	\$ 0.54	\$ 0.60	\$ 0.55	\$ 0.56
Weighted average fully diluted shares	92,846,779	92,762,982	92,282,350	93,221,674

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

<sup>2</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures - EBITDA" section.

## Selected Annual Information

(\$ millions, except per share amounts) For the years ended November 30	2004	2003	2002
Revenue	\$ 639.9	\$ 600.8	\$ 654.1
Cash flow from operations <sup>1</sup>	207.8	208.5	267.0
EBITDA <sup>2</sup>	252.5	284.3	320.4
Pretax income	84.9	117.2	163.4
Net income	77.3	44.0	119.8
Net income per share			
Basic	\$ 0.85	\$ 0.48	\$ 1.34
Diluted	\$ 0.84	\$ 0.47	\$ 1.30
Cash flow from operations per share			
Basic	\$ 2.28	\$ 2.27	\$ 2.97
Diluted	\$ 2.26	\$ 2.25	\$ 2.91
Dividends per share	\$ 0.410	\$ 0.295	\$ 0.255
Total corporate assets	\$ 2,167.8	\$ 1,967.0	\$ 1,974.9
Total long-term debt	\$ 69.7	\$ 114.1	\$ 225.4

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

<sup>2</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures - EBITDA" section.

### Additional Information

Additional information relating to the Company can be found in the Company's Consolidated Financial Statements and accompanying notes for the year ended November 30, 2004, the Company's 2004 AIF and other documents filed with applicable securities regulators in Canada and may be accessed at [www.sedar.com](http://www.sedar.com).

## management's responsibility for financial reporting

Toronto, January 24, 2005

The accompanying consolidated financial statements of AGF Management Ltd. were prepared by management, which is responsible for the integrity and fairness of the information presented, including the amounts based on estimates and judgments. These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. Financial information appearing throughout this Annual Report is consistent with these consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal controls is supported by a compliance function, which ensures that the Company and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the Company's operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of outside directors. This Committee reviews the consolidated financial statements of the Company and recommends them to the Board for approval.

PricewaterhouseCoopers, independent auditors appointed by the shareholders of the Company upon the recommendation of the Audit Committee, have performed an independent audit of the consolidated financial statements, and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.



**Blake C. Goldring, CFA**  
President & Chief Executive Officer



**Greg Henderson, CA**  
Senior Vice-President & Chief Financial Officer

## auditors' report

January 24, 2005

To the Shareholders of AGF Management Limited:

We have audited the consolidated balance sheets of **AGF Management Limited** as at November 30, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for each of the years in the two-year period ended November 30, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the two-year period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Toronto, Canada

**AGF Management Limited**  
**consolidated balance sheets**

(in thousands of dollars) November 30	2004	2003
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 118,805	\$ 88,905
Short-term investments	20,110	19,065
Accounts receivable and other assets	63,099	63,051
	202,014	171,021
Mortgages and consumer loans (note 3)	707,306	494,318
Investment in associated company (note 4)	108,802	108,692
Other investments	7,532	14,604
Management contracts	473,670	473,670
Customer contracts, relationships and investment advisory contracts, net of accumulated amortization of \$55,602 (2003 - \$37,051)	123,862	101,918
Deferred selling commissions, net of accumulated amortization of \$735,093 (2003 - \$613,370)	327,618	394,839
Property, equipment and other intangible assets, net of accumulated amortization (note 6)	52,356	59,769
Goodwill (notes 4 and 5)	160,794	148,165
Other assets	3,892	-
	\$ 2,167,846	\$ 1,966,996

(in thousands of dollars) November 30	2004	2003
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 102,818	\$ 60,756
Long-term debt due within one year (note 7)	44,553	41,371
Income taxes payable	1,046	19,283
	148,417	121,410
Deposits (note 3)	761,232	535,200
Long-term debt (note 7)	69,706	114,114
Participation units (note 7)	6,157	6,157
Future income taxes (note 11)	262,383	285,262
Leasehold inducements	4,370	1,493
Other liabilities	1,215	-
	1,253,480	1,063,636
Shareholders' Equity		
Capital (note 12)	394,125	395,168
Contributed surplus (note 13)	1,781	50
Retained earnings	517,681	506,274
Foreign currency translation adjustment	779	1,868
	914,366	903,360
	\$ 2,167,846	\$ 1,966,996

Commitments (note 21)  
Guarantees (note 22)  
Contingent liabilities (note 23)  
(See accompanying notes to consolidated financial statements)

Approved by the Board:



C. Warren Goldring  
Director



Douglas L. Derry, FCA  
Director

**AGF Management Limited**  
**consolidated statements of income**

(in thousands of dollars, except per share amounts)		
<b>Years ended November 30</b>	<b>2004</b>	<b>2003</b>
<b>Revenue</b>		
Net management and advisory fees	\$ 433,693	\$ 405,740
Administration fees, interest and other revenue	165,484	140,709
Deferred sales charges	39,067	40,543
Gain on sale of investment in associated company (note 4)	-	12,758
Investment income	1,668	1,082
	<b>639,912</b>	<b>600,832</b>
<b>Expenses</b>		
Selling, general and administrative (note 15)	223,299	156,560
Trailing commissions	112,454	102,758
Investment advisory fees	30,413	30,591
Amortization of deferred selling commissions	121,723	116,993
Amortization of customer contracts, relationships and investment advisory contracts	19,554	18,138
Amortization of property, equipment and other intangible assets	20,189	22,326
Interest on Trust Company deposits	18,118	18,570
Interest expense	6,114	9,663
Integration costs (note 16)	-	5,400
Provision for Trust Company loan losses	2,554	1,967
Writedown of short-term investments	612	643
	<b>555,030</b>	<b>483,609</b>
<b>Income before income taxes</b>	<b>84,882</b>	<b>117,223</b>
<b>Income tax expense (reduction) (note 11)</b>		
Current	45,486	62,052
Future	(37,891)	11,155
	<b>7,595</b>	<b>73,207</b>
<b>Net income for the year</b>	<b>\$ 77,287</b>	<b>\$ 44,016</b>
<b>Earnings Per Share (note 14)</b>		
<i>Basic</i>	\$ 0.85	\$ 0.48
<i>Diluted</i>	\$ 0.84	\$ 0.47

(See accompanying notes to consolidated financial statements)

(in thousands of dollars) Years ended November 30	2004	2003
<b>Retained earnings, beginning of year</b>	\$ 506,274	\$ 495,819
Net income for the year	77,287	44,016
	583,561	539,835
Deduct:		
Dividends on AGF Class A voting common shares and AGF Class B non-voting shares (41.0¢ per share; 2003 – 29.5¢ per share)	37,474	27,150
Excess paid over book value of AGF Class B non-voting shares purchased for cancellation (note 12)	28,406	6,411
<b>Retained earnings, end of year</b>	<b>\$ 517,681</b>	<b>\$ 506,274</b>

(See accompanying notes to consolidated financial statements)

**AGF Management Limited**  
consolidated statements of cash flow

(in thousands of dollars) Years ended November 30	2004	2003
<b>Operating Activities</b>		
Net income for the year	\$ 77,287	\$ 44,016
Items not affecting cash -		
Amortization of deferred selling commissions	121,723	116,993
Amortization of customer contracts, relationships and investment advisory contracts	19,554	18,138
Amortization of property, equipment and other intangible assets	20,189	22,326
Future income taxes	(37,891)	11,155
Gain on sale of investment in associated company	-	(12,758)
Mark-to-market on swap transactions	(197)	-
Other	7,129	8,674
	207,794	208,544
Net decrease in non-cash balances related to operations	30,734	4,455
	238,528	212,999
<b>Financing Activities</b>		
Purchase of AGF Class B non-voting shares for cancellation	(37,438)	(8,567)
Issuance of AGF Class B non-voting shares	2,789	6,484
Dividends	(37,474)	(27,150)
Decrease in bank loan	(46,400)	(104,900)
Net decrease in notes payable	(7,825)	(9,092)
Increase in leasehold inducements	3,230	160
Net increase in Trust Company deposits	226,032	66,132
	102,914	(76,933)
<b>Investing Activities</b>		
Deferred selling commissions paid	(54,504)	(45,782)
Investment in associated company	-	(604)
Settlement of hedge of investment in associated company	(3,858)	6,528
Acquisition of third-party administration business	-	6,555
Acquisition of subsidiaries, net of cash acquired	(19,961)	(10,530)
Purchase of property, equipment and other intangible assets	(11,358)	(14,528)
Purchase of investments	(14,986)	(938)
Sale of investments	8,667	819
Net increase in Trust Company mortgages and consumer loans	(215,542)	(113,506)
	(311,542)	(171,986)
<b>Increase (decrease) in cash and cash equivalents during the year</b>	29,900	(35,920)
<b>Balance of cash and cash equivalents, beginning of year</b>	88,905	124,825
<b>Balance of cash and cash equivalents, end of year</b>	\$ 118,805	\$ 88,905
<b>Represented by:</b>		
Cash and cash equivalents	\$ 11,382	\$ 5,838
Trust Company cash and cash equivalents	107,423	83,067
	\$ 118,805	\$ 88,905

(See accompanying notes to consolidated financial statements)

# notes to consolidated financial statements

## Description of Business

AGF Management Limited ("AGF" or the "Company") is incorporated under the Business Corporations Act (Ontario). AGF is an integrated, global wealth management corporation whose principal subsidiaries provide mutual fund management, private investment management for high-net-worth clients, trust products and services (including mortgage and investment lending and deposit-taking activities), investment advisory services, third-party fund administration services, and investment industry software development for individual and institutional clients. AGF conducts the management and distribution of mutual funds in Canada under the brand names AGF and Harmony (collectively, the "AGF Funds"). AGF conducts its third-party fund administration services and investment industry software development under the names Unisen in Canada and Investmaster in the U.K. and its trust business under the name of AGF Trust (the "Trust Company").

## Note 1: Significant Accounting Policies

### Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of AGF and its directly and indirectly owned subsidiaries and partnership as listed below. Intercompany transactions and balances are eliminated on consolidation. Investments over which the company is able to exercise significant influence are accounted for by the equity method. Other long-term investments are recorded at cost and written down when there is evidence that a decline in value that is other than temporary has occurred. Short-term investments are recorded at cost and written down to market value when market value declines below recorded cost. Certain comparative amounts in these financial statements have been reclassified to conform with the current year's presentation.

The principal entities of AGF are:

- AGF Funds Inc.
- AGF International Advisors Company Limited
- AGF Asset Management Asia Ltd.
- AGF Private Investment Management Limited
- AGF Trust Company ("Trust Company")
- AGF Securities (Canada) Limited
- AGF Securities, Inc.
- AGF Limited Partnership 1998
- AGF International Company Limited
- Consort Information Systems Limited
- Cypress Capital Management Ltd.
- Investmaster Group Limited
- Investmaster Holdings Limited
- P.J. Doherty & Associates Co. Ltd.
- Unisen Holdings Inc.
- Unisen Inc.
- 20/20 Financial Corporation

### Revenue Recognition

Management and advisory fees are based on the net asset value of funds under management and are recognized on an accrual basis. These fees are shown net of management fee rebates and distribution fees payable to third-party selling commission financing entities.

Administration fees and other revenue are recognized on an accrual basis when the services are performed.

Deferred sales charge ("DSC") revenue is received from investors when mutual fund securities sold on a DSC basis are redeemed. DSC revenue is recognized on the trade date of redemption of the applicable mutual fund securities.

Interest income on mortgages and consumer loans, dividends and other investment income earned are recognized on an accrual basis in the period earned.

### Cash and Cash Equivalents

Cash and cash equivalents are composed of cash and temporary investments consisting of highly liquid investments with short-term maturities.

### Income Taxes

The Company follows the liability method in accounting for income taxes, whereby future income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates that are expected to be in effect when the future income tax assets or liabilities are expected to be realized or settled.

### Foreign Currency Translation

Foreign currency denominated items are translated in Canadian dollars as follows:

Financial statements of integrated foreign subsidiaries are translated using the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets are translated at historical exchange rates. Revenue and expenses are translated at average exchange rates for the period, except for amortization, which is translated on the same basis as the related asset. Translation gains and losses are included in net income.

Financial statements of self-sustaining operations are translated using the current rate method. Under this method, assets and liabilities are translated into Canadian dollars at the balance sheet date. Revenue and expenses are translated at average exchange rates for the period. Translation gains and loss are included in the foreign currency translation adjustment account.

Investments in foreign associated companies and any related debt and foreign exchange forward contracts are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Unrealized translation gains and losses are reported in a separate component of shareholders' equity as a foreign currency translation adjustment. See note 2, Changes in Accounting Policy and note 8, Interest Rate Swap and Foreign Exchange Hedge Transactions.

### Deferred Selling Commissions

Selling commissions paid on mutual fund securities sold on a DSC basis are recorded at cost and are amortized on a straight-line basis over a period that corresponds with the applicable DSC schedule (which ranges from three to seven years). Unamortized deferred selling commissions are written down to the extent that the carrying value exceeds the expected future revenue on an undiscounted basis.

### Property and Equipment

Property and equipment, which is composed of furniture and equipment, computer hardware, leasehold improvements and equipment under capital lease, is stated at cost, net of accumulated amortization. Amortization is computed on the following methods based on the estimated useful lives of these assets:

Furniture and equipment	20% declining balance
Computer hardware	30% declining balance
Leasehold improvements	straight-line over term of lease
Computer equipment under capital lease	straight-line over term of lease

### Goodwill and Management Contracts

The purchase price of acquisitions accounted for under the purchase method and the purchase price of investments accounted for under the equity method are allocated based on the fair values of the net identifiable assets acquired, including management contracts. The excess of the purchase price over the values of such assets is recorded as goodwill. Management contracts have been determined to have an indefinite life.

Goodwill and management contracts are not amortized, but are subject to impairment tests on at least an annual basis. Goodwill is allocated to the reporting units and any impairment is identified by comparing the carrying value of a reporting unit to its fair value. If any impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, based on the fair value of the assets and liabilities of the reporting unit. As of November 30, 2004, AGF has completed its annual impairment testing on the carrying values of goodwill and management contracts. No impairment losses were required to be recognized as a result of this testing.

### Finite Life Intangible Assets

Finite life intangible assets, which are composed of customer contracts, relationships and investment advisory contracts, computer software, television production and program rights, are stated at cost, net of accumulated amortization. Amortization is computed on the following methods based on the estimated useful lives of these assets:

Customer contracts and relationships	straight-line over seven to 15 years
Investment advisory contracts	straight-line over five years
Computer software	straight-line over three to five years
Television production	straight-line over two years
Program rights	straight-line over five years

### Mortgages, Consumer Loans and Allowances

Mortgage loans are carried at amortized cost less principal repayments less any holdbacks, net of an allowance for mortgage losses. Interest income from mortgages is recorded on an accrual basis. Accrued but uncollected interest on uninsured mortgages is reversed when loans are placed on a non-accrual basis.

Consumer loans are carried at amortized cost less principal repayments, net of allowance for consumer loan losses. Interest income from consumer loans is recorded on an accrual basis. Loans are classified as non-accrual when, in the opinion of management, there is reasonable doubt as to the collectibility, either in whole or in part, of interest or principal or when principal or interest is past due 90 days, except where the loan is both well-secured and in the process of collection. In any event, a loan that is insured by the Federal Government or an agency thereof is classified as non-accrual when principal or interest is past due 365 days, or in the case of other mortgage loans, when they are contractually in arrears for 180 days. Thereafter, interest income is recognized on a cash basis only after specific provision for losses has been recovered and provided there is no further doubt as to the collectibility of the principal.

The allowance for mortgage and consumer loan losses consists of both specific and general provisions. Specific provisions relate to individual loans that, in the opinion of management, are necessary to reflect the estimated realizable value of the particular loan. General provisions are based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the specific provisions. The assessment includes general economic factors and geographic exposure.

### Stock-Based Compensation and Other Stock-Based Payments

The Company has stock-based compensation plans as described in note 13(a). The Company utilizes the fair value-based method of accounting for stock-based compensation. The Company adopted this standard for the year ended November 30, 2003 on a prospective basis. The fair value of share-based compensation is recorded as a charge to net earnings with a corresponding credit to contributed surplus.

The Company also has a share purchase plan under which employees can have a portion of their annual earnings withheld to purchase the Company's Class B non-voting shares. The Company matches a portion of these amounts. The Company's contribution vests immediately and is recorded as a charge to earnings.

### Assets Under Management

The Company manages mutual fund and other investment assets owned by clients and third parties that are not reflected on the consolidated balance sheet.

### Earnings Per Share

The Company uses the treasury stock method for calculating diluted earnings per share. The diluted earnings per share calculation considers the impact of employee stock options and other potentially dilutive instruments, as described in note 14.

### Guarantees

Effective December 1, 2003, the Company adopted CICA Accounting Guideline 14, "Disclosure of Guarantees" ("AcG 14"), which requires a guarantor to disclose significant information about certain types of guarantees that it has provided, including certain types of indemnities and indirect guarantees of indebtedness to others, without regard to the likelihood of whether it will have to make any payments under the guarantees. The disclosure required by AcG 14 is in addition to the existing disclosure required for contingencies and is provided in note 22.

## Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual amounts could differ from these estimates.

Key areas of estimation where management has made difficult, complex or subjective judgments, often in respect of matters that are inherently uncertain, are the provision for useful lives of depreciable assets, loan loss provisions and the recoverability of property, equipment, goodwill and intangible assets using estimates of future cash flows. In addition, the Company has made significant investments in companies or businesses, some of which have experienced operating losses. Significant changes in the assumptions, including those with respect to future business plans and cash flows, could change the recorded amounts by a material amount. In addition, further operating losses of certain investees could result in impairment of these investments.

## Note 2: Changes in Accounting Policy

### Hedging Relationships

On December 1, 2003, AGF adopted CICA Accounting Guideline 13, "Hedging Relationships" ("AcG 13"), which addresses the identification, designation, documentation and assessment of effectiveness of hedging transactions for the purpose of applying hedge accounting as described in note 8.

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

The Company 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 Company 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 swap and the expense of such amortization for the year ended November 30, 2004 was \$0.2 million (2003 - nil). A credit of \$0.2 million (2003 - nil) on the mark-to-market of the swap transactions has been netted against interest expense for the year ended November 30, 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.

Throughout 2003 and most of 2004, foreign exchange forward contracts were used to hedge the investment in Smith & Williamson Holdings Limited ("S&WHL"). These contracts were designated as hedges and qualified for hedge accounting. Any unrealized foreign exchange gains or losses on the forward contracts were recorded in a separate component of shareholders' equity as a foreign currency translation adjustment. When these contracts matured in late 2004, they were not renewed.

### Consolidation of Variable Interest Entities (VIEs)

In June 2003, the CICA issued AcG 15, "Consolidation of Variable Interest Entities." AcG 15 provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. AcG 15 is effective for all annual and interim periods beginning on or after December 1, 2004. The company is currently reviewing certain relationships to determine if any of these would require consolidation. Consolidation of these entities would not have a significant impact on net income of the Company.

### Note 3: Trust Company

(a) Mortgages and Consumer Loans

The Trust Company's principal business activities are mortgage and consumer loans and deposit taking. Details relating to these activities are as follows:

\$(000s)	Variable rate	Term to maturity			2004 total	2003 total
		1 year or less	1-5 years	Over 5 years		
Residential mortgage loans	\$ 2,018	\$ 154,875	\$ 111,814	\$ 155	\$ 268,862	\$ 202,625
Commercial mortgage loans	-	9,524	7,230	-	16,754	12,776
Total mortgage loans	2,018	164,399	119,044	155	285,616	215,401
Consumer loans	425,957	-	-	-	425,957	281,860
	\$ 427,975	\$ 164,399	\$ 119,044	\$ 155	711,573	497,261
Less allowance for loan losses					4,267	2,943
					\$ 707,306	\$ 494,318
Impaired loans included in above					\$ 1,892	\$ 1,506
Less specific allowance for loan losses					597	257
					\$ 1,295	\$ 1,249

The change in the allowance for loan losses is as follows:

\$(000s)	2004 total	2003 total
Balance, beginning of year	\$ 2,943	\$ 2,208
Write offs	(1,361)	(1,249)
Recoveries	131	17
Provision for loan losses	2,554	1,967
Balance, end of year	\$ 4,267	\$ 2,943

As at November 30, 2004, the Company's mortgage portfolio was composed of a combination of fixed rate and variable rate residential mortgages, of which \$182.2 million is insured, with a weighted average term to maturity of 1.4 years and a weighted average yield of 5.95%. Consumer loans have floating interest rates based on prime.

**(b) Interest Rate Swaps**

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 December 1, 2004 and November 30, 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 November 30, 2004, the aggregate notional amount of the swap transactions was \$555.2 million. 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 November 30, 2004, was \$6.9 million (2003 - AGF Trust would have received \$2.4 million).

Notional amount of swap	Maturity date	Fixed interest rate received
\$ 7,000,000	2004	3.16%
63,500,000	2005	3.06% - 4.17%
107,000,000	2006	2.35% - 4.57%
138,700,000	2007	3.00% - 5.11%
137,000,000	2008	3.17% - 4.43%
102,000,000	2009	3.49% - 4.59%

**(c) Trust Company Deposits**

\$(000s)	Term to maturity				2004 total	2003 total
	Demand	1 year or less	1-5 years	Over 5 years		
Deposits	\$ 3,863	\$ 173,597	\$ 580,734	\$ 3,038	\$ 761,232	\$ 535,200

As at November 30, 2004, deposits were composed substantially of guaranteed investment certificates with a weighted average term to maturity of 2.4 years and a weighted average interest rate of 3.89%.

## Note 4: Investment in Associated Company

On December 2, 2002, the merger of NCL and Smith & Williamson Holdings Limited ("S&WHL") and the cash subscription by the Company of \$70.0 million of new capital in the enlarged business were completed. With the completion of the merger and subscription, the Company held a 30.0% interest in S&WHL. As at November 30, 2004 the Company held a 31.6% interest in S&WHL. S&WHL provides independent private client investment management, financial advisory and accounting services in the U.K.

The Company recognized a pre-tax capital gain of \$12.8 million in the year ended November 30, 2003 on the disposition of its investment in NCL with respect to the completion of the above transaction.

The investment is being accounted for by the equity method, with the Company's share of the results of operations of S&WHL included in the consolidated financial statements from the date of purchase. The purchase price allocation and consideration paid in December 2002 are summarized as follows:

	\$(000s)
Net assets acquired	
Net tangible assets	\$ 22,453
Customer contracts and relationships	107,777
Goodwill	21,369
Future income taxes	(32,334)
	\$ 119,265
Consideration paid (including acquisition costs)	
Cash	\$ 70,598
Shares in NCL	48,667
	\$ 119,265

For the year ended November 30, 2004, the Company's share of the net earnings of S&WHL, net of amortization of customer contracts and relationships, amounted to \$2.2 million (2003 - \$0.1 million) and the Company received dividends of \$3.6 million (2003 - \$1.1 million).

## Note 5: Acquisitions

### (a) Acquisition of Cypress Capital Management Ltd.

On June 30, 2004, the Company 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 has been 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:

	\$(000s)
Net assets acquired	
Cash	\$ 351
Other assets	1,625
Customer contracts	28,480
Goodwill	7,269
Current liabilities	(1,351)
Future income tax	(10,287)
	\$ 26,087
Consideration paid (including acquisition costs)	
Cash	\$ 7,887
285,553 AGF Class B non-voting shares issued	5,200
Future payments due June 30, 2005	6,500
Future payments due June 30, 2006	6,500
	\$ 26,087

**(b) Acquisition of P.J. Doherty & Associates Co. Ltd.**

On January 15, 2004, the Company 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 is 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:

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

(c) Acquisition of Consort Information Systems Limited

On April 17, 2003, the Company, through its wholly owned subsidiary, Investmaster Group Limited, acquired all of the outstanding shares of Consort Information Systems Limited ("CISL") for consideration of \$9.4 million, including acquisition costs of \$0.4 million. Cash consideration paid, including acquisition costs, amounted to \$8.3 million, with a future payment of \$1.1 million due on January 31, 2006. CISL is based in the U.K. and is a supplier of customized software to the U.K. private client stockbroking industry. The acquisition is being accounted for by the purchase method of accounting, with the results of operations of CISL included in the consolidated financial statements from the date of acquisition. The value attributed to the acquired software is being amortized on a straight-line basis over five years.

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

	\$(000s)
Net assets acquired	
Cash	\$ 809
Other current assets	1,889
Property and equipment	264
Software	9,473
Goodwill	1,150
Liabilities	(1,337)
Future income taxes	(2,842)
	\$ 9,406
Consideration paid (including acquisition costs)	
Cash	\$ 8,339
Payment due January 31, 2006	1,067
	\$ 9,406

(d) Acquisition of Third-Party Administration Business from The Toronto-Dominion Bank

On January 31, 2002, the Company acquired The Toronto-Dominion Bank's third-party shareholder record-keeping and fund valuation business for cash consideration of \$25.5 million, including acquisition costs of \$0.5 million. The transaction was an asset purchase, with the entire purchase price being assigned to customer contracts and relationships.

The purchase price was subject to a clawback based on client revenues received during the 12-month period ending January 31, 2003. Based on this provision, a repayment of purchase price in the amount of \$6.6 million was received by the Company in the third quarter of fiscal 2003 and was recorded as a reduction in the value of customer contracts and relationships acquired.

(e) Acquisition of Jewelstone Systems Inc.

On September 15, 2002, the Company acquired all of the outstanding shares of Jewelstone Systems Inc. for consideration of \$59.7 million, including acquisition costs of \$0.5 million, with potential payments to a maximum of \$5.0 million payable on or before December 31, 2004, conditional on the achievement of certain operational targets.

Subsequent to the determination of the above purchase equation, additional payments of \$2.0 million were made to the vendors during 2004 (2003 - \$3.0 million) based on the achievement of operational targets set out in the share purchase agreement. These payments were recorded as an increase in goodwill.

## Note 6: Property, Equipment and Other Intangible Assets

\$(000s) November 30, 2004	Cost	Accumulated amortization	Net
<b>Property and equipment</b>			
Furniture and equipment	\$ 22,446	\$ 13,976	\$ 8,470
Leasehold improvements	20,780	11,108	9,672
Computer hardware	48,950	35,488	13,462
Computer equipment under capital lease	4,237	1,772	2,465
Total property and equipment	96,413	62,344	34,069
<b>Other intangible assets</b>			
Computer software	53,663	35,376	18,287
Total other intangible assets	53,663	35,376	18,287
	\$ 150,076	\$ 97,720	\$ 52,356

\$(000s) November 30, 2003	Cost	Accumulated amortization	Net
<b>Property and equipment</b>			
Furniture and equipment	\$ 21,705	\$ 11,912	\$ 9,793
Leasehold improvements	19,255	9,242	10,013
Computer hardware	46,840	32,673	14,167
Computer equipment under capital lease	4,191	837	3,354
Total property and equipment	91,991	54,664	37,327
<b>Other intangible assets</b>			
Computer software	48,675	26,233	22,442
Television production and program rights	6,955	6,955	-
Total other intangible assets	55,630	33,188	22,442
	\$ 147,621	\$ 87,852	\$ 59,769

## Note 7: Long-Term Debt

\$(000s) November 30	2004	2003
Bank loans		
Fully amortizing term loan	\$ 35,400	\$ 70,800
Revolving term loan	43,300	54,300
Notes payable due November 22, 2004	-	4,970
Notes payable due April 30, 2013	19,327	21,230
Payment re CISL due January 31, 2006 (note 5c)	1,067	1,067
Cypress payments due June 30, 2005 (note 5a)	6,500	-
Cypress payments due June 30, 2006 (note 5a)	6,500	-
Capital lease obligations	2,165	2,883
Loan notes due September 30, 2004	-	235
	114,259	155,485
Less: amount included in current liabilities	44,553	41,371
	\$ 69,706	\$ 114,114

### (a) Bank Loans

#### Fully Amortizing Term Loan

The Company has arranged a fully amortizing five-year term loan with a Canadian chartered bank, which is repayable in equal quarterly instalments over the period of 20 quarters following advance plus interest payable. This loan will be fully repaid by November 20, 2005. The facility can be funded by direct advances and/or bankers' acceptances ("BAs"). At November 30, 2004, the Company has drawn the facility in the form of a 91-day BA at an effective interest rate of 3.12% per annum.

#### Revolving Term Loan

The Company has arranged a 10-year prime rate-based revolving term loan to a maximum of \$150.0 million with a Canadian chartered bank. Under the loan agreement, the Company is permitted to avail the revolving term loan by direct advances and/or bankers' acceptances. 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 June 30, 2005. However, the Company may request by April 15, 2005, and prior to April 15 in any calendar year thereafter, a re-commencement of the 10-year term at the expiry of the then-current Commitment Period. 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-eighty-fourth of the amount of principal outstanding.

As at November 30, 2004, the Company has drawn \$43.3 million against the available loan amount in the form of three- to 90-day BAs at an effective interest rate of 2.90% per annum.

Security for the bank loans includes a specific claim over the management fees owing from the mutual funds (subject to the existing claims of related limited partnerships) for which the Company acts as manager and, depending upon the amount of the loan outstanding, an assignment of AGF's investments in 20/20 Financial Corporation and AGF International Company Limited.

**(b) Notes Payable Due April 30, 2013**

Proceeds from notes payable issued to Multi-Fund Income Trust ("Multi-Fund") were used to pay sales commissions incurred on the sale of units of the Global Strategy funds purchased on a contingent deferred sales charge basis from July 30, 1997 to June 30, 1998.

The notes payable bear interest at 5% per annum, accrued daily and payable monthly. Monthly repayments of interest and principal are required until the full principal amount of the notes is repaid or April 30, 2013, whichever comes first. Monthly repayments are determined based on a specified percentage (up to 0.47% per annum) of the net asset value of mutual fund assets financed by Multi-Fund ("Distributed Securities"). Monthly repayments will also include all contingent deferred sales charges received by the Company related to Distributed Securities.

Multi-Fund has no recourse to any other assets of the Company to satisfy any amount payable in respect of the notes.

**(c) Participation Units**

After the notes payable referred to in note 7(b) are repaid in full and prior to April 30, 2013, Multi-Fund will be entitled to up to 0.52% per annum of the net asset value of then-outstanding Distributed Securities (together with all contingent deferred sales charges relating to the Distributed Securities, if any) under the terms of the participation fee agreement with Multi-Fund.

The participation units have been accounted for as a deferred credit. If the notes payable are repaid in full prior to April 30, 2013, the deferred credit will be amortized over the remaining period to that date. Otherwise, the entire amount will be recognized as revenue on April 30, 2013.

**(d) Capital Lease Obligations**

The capital lease is based on an interest rate of 5.35% per annum and expires August 31, 2007. Minimum annual lease payments are as follows:

	\$(000s)
2005	\$ 848
2006	848
2007	636

**(e) Minimum Principal Debt Repayments**

	\$(000s)
2005	\$ 44,553
2006	10,261
2007	2,524
2008	8,088
2009	8,088
Thereafter	40,745

**(f) Interest Rate Sensitivity**

The effect of a 1% change in interest rates would increase or decrease annual pre-tax income of the Company by approximately \$0.5 million.

## Note 8: Interest Rate Swap and Foreign Exchange Hedge Transactions

To fix the interest rate paid on a portion of its long-term debt, the Company has entered into three interest rate swap transactions (the "Swap Transactions") with a Canadian chartered bank. The Swap Transactions expire between October 28, 2007 and January 27, 2008. They involve the exchange of three-month bankers' acceptance floating interest rates for fixed interest rates of 5.47% to 5.56% per annum. As at November 30, 2004, the aggregate notional amount of the Swap Transactions was \$30.2 million (2003 - \$39.8 million). The aggregate fair value of the Swap Transactions, which represents the amount that would be paid by the Company if the transactions were terminated at November 30, 2004, was \$1.2 million (2003 - \$1.7 million).

To hedge its currency exposure and to fix the interest rate on borrowings in connection with a Japanese yen-denominated investment, the Company has entered into a cross-currency swap transaction that expires on November 29, 2006. It involves the exchange of three-month bankers' acceptance floating interest rates on a notional amount of CDN \$2.9 million for a fixed interest rate of 0.56% per annum on a notional amount of JPY ¥256.0 million. The aggregate fair value of the cross-currency swap transaction, which represents the amount that would be paid by the Company if the transaction was terminated at November 30, 2004, was nil (2003 - \$0.2 million would have been received by the Company).

To hedge its currency exposure in connection with its investment in U.K.-based S&WHL, an associated company, the Company entered into foreign exchange forward contracts to sell U.K. £50.0 million on November 29, 2004 at an average exchange rate of 2.1820 for CDN \$109.1 million. Effective July 29, 2004, the Company redesignated 85% of the U.K. £50.0 million as being a hedge of its currency exposure in connection with its investment in S&WHL.

On July 29, 2004 the Company also entered into a foreign exchange forward contract to purchase U.K. £7.5 million on November 29, 2004 at an exchange rate of 2.3902 for CDN \$17.9 million. The fair value of this contract has been recorded in income, effectively offsetting the 15% portion of the U.K. £50.0 million contract, which has also been recorded in income.

The Company subsequently determined that it would no longer hedge its currency exposure in connection with its investment in S&WHL. As such, when all the swaps related to the S&WHL investment matured on November 29, 2004, the Company did not enter any new swaps.

## Note 9: Fair Value of Financial Instruments

\$(000s) November 30	2004		2003	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Mortgages and consumer loans	\$ 707,306	\$ 710,326	\$ 494,318	\$ 497,174
Short-term investments	20,110	24,438	19,065	21,453
Other investments	7,532	8,751	14,604	16,550
	\$ 734,948	\$ 743,515	\$ 527,987	\$ 535,177
Deposits	\$ 761,232	\$ 767,985	\$ 535,200	\$ 540,606

The estimated fair value of loans and deposits is determined by discounting the future cash flow at prevailing interest rates for loans and deposits with similar terms and applicable credit risks.

The estimated fair value of securities with an available trading market is based on their quoted market value.

Investments that have no trading market are valued based on management estimates using common valuation techniques.

Other financial assets and financial liabilities of the Company are recorded at cost, which approximates fair value.

Short-term investments include \$19.7 million (2003 - \$18.3 million) in investments in various AGF Funds.

## Note 10: Limited Partnership Financings

Selling commissions paid on certain sales of mutual fund securities of the AGF Funds made on the DSC basis ("DSC securities") have been financed by limited partnerships held by third-party investors. Up to November 30, 2004, such limited partnerships have financed selling commissions of approximately \$440 million in respect of such DSC securities. The Company is obligated to pay the relevant limited partnership an annual fee of 0.47% to 0.90% of the net asset value of DSC securities. The limited partnerships also receive any deferred sales charges resulting from the redemption of such securities. These obligations continue as long as such DSC securities remain outstanding except for certain of the limited partnerships, in which case the obligation terminates at various dates from December 31, 2006 to December 31, 2020. For certain limited partnerships, the obligation is secured by the Company's mutual fund management contracts to the extent of the particular obligation.

The Company is responsible for the management and administration of the limited partnerships. These services are provided in the normal course of operations and are recorded at the amount of consideration agreed to by the parties. The amount of fees received in 2004 was \$0.8 million (2003 - \$0.9 million). As at November 30, 2004, the net asset value of DSC securities financed by the limited partnerships was \$2.2 billion (2003 - \$2.7 billion).

## Note 11: Income Taxes

(a) The Company's effective income tax rate is composed as follows:

Years ended November 30	2004	2003
Canadian corporate tax rate	36.0%	36.7%
Change in future federal and provincial income tax rates	-	34.3 <sup>1</sup>
Acquisition of tax-related benefits (net)	(18.5)	-
Rate differential on earnings of subsidiaries	(12.8)	(8.2)
Tax benefit of losses of foreign subsidiaries not recognized	1.8	0.9
Amortization of customer contracts and relationships	1.5	0.6
Tax-exempt investment income	(1.6)	(2.3)
Other	2.5	0.5
Effective income tax rate	8.9%	62.5%

(b) Significant components of the provision for future income tax expense attributable to continuing operations are as follows:

\$(000s) Years ended November 30	2004	2003
Change in temporary differences	\$ (37,891)	\$ (29,012)
Tax rate changes	-	40,167 <sup>1</sup>
Future income tax expense (benefit)	\$ (37,891)	\$ 11,155

<sup>1</sup> This is a result of the repeal of scheduled Ontario corporate income tax rate reductions for 2004 to 2006 and the increase in the Ontario income tax rate to 14% effective on January 1, 2004.

(c) The tax effects of temporary differences that gave rise to future tax liabilities and assets are as follows:

\$(000s) November 30	2004	2003
<b>Future income tax liability</b>		
Deferred sales commissions	\$ (113,845)	\$ (133,930)
Deferred revenue	2,210	2,206
Undepreciated capital cost less than carrying values	(2,896)	(3,898)
Loss carryforwards	3,753	2,006
Expenses deductible in future periods	12,291	1,753
Share issue costs	434	862
Goodwill and management contracts	(163,829)	(154,294)
Other	(501)	33
Future income tax liability	\$ (262,383)	\$ (285,262)

(d) As at November 30, 2004, certain subsidiaries of the Company have accumulated aggregate income tax losses of approximately \$26.9 million (2003 - \$18.2 million) that may be used to reduce taxable income in the future. These tax loss carryforwards expire as follows:

\$10.4 million	2007 to 2011
\$16.5 million	no expiry date

The potential tax benefits of \$16.5 million of these losses have not been recognized in the consolidated financial statements.

## Note 12: Capital Stock

### (a) Authorized Capital

The authorized capital of AGF consists of an unlimited number of AGF Class B non-voting 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) Movement During the Year

The change in capital stock is summarized as follows:

	Number of shares issued	\$(000s) Amount
<b>Class B Shares</b>		
Balance, November 30, 2002	91,043,109	\$ 390,840
Issued through dividend reinvestment plan	9,047	141
Stock options exercised	1,665,867	6,343
Purchased for cancellation	(503,300)	(2,156)
Balance, November 30, 2003	92,214,723	\$ 395,168
Issued on acquisition of a subsidiary	285,553	5,200
Issued through dividend reinvestment plan	12,405	214
Stock options exercised	326,582	2,575
Purchased for cancellation	(2,099,800)	(9,032)
Balance, November 30, 2004	90,739,463	\$ 394,125
<b>Class A Shares</b>		
Balance, November 30, 2004 and 2003	57,600	-
Total stated capital, November 30, 2004 (2003 - \$395,168)		\$ 394,125

### (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. Under this issuer bid the Company may purchase up to 10% of the public float outstanding on the date of receipt of regulatory approval or up to 7.6 million Class B shares. Present approval for such purchases extends through to February 2005. During the year ended November 30, 2004, 2,099,800 Class B shares were purchased at a cost of \$37.4 million and the excess paid over the book value of the shares purchased for cancellation was charged to retained earnings. It is the Company's intention to file for a one-year extension of the regulatory approval to purchase Class B shares for cancellation.

## Note 13: Stock-Based Compensation and Other Stock-Based Payments

(a) Stock Option Plans

AGF has established stock option plans for senior employees under which stock options to purchase an aggregate maximum of 6,591,088 Class B non-voting shares could have been granted as at November 30, 2004. The stock options are issued at a price not less than the market price of the Class B non-voting 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 100% vest at the end of the term of the option.

The change in stock options during 2003 and 2004 is summarized as follows:

	Number of options	Weighted average exercise price
<b>Class B Share Options</b>		
Balance outstanding, November 30, 2002	4,983,947	\$ 12.60
Options granted	130,000	\$ 17.24
Options cancelled	(178,000)	\$ 20.54
Options exercised	(1,665,867)	\$ 3.81
Balance outstanding, November 30, 2003	3,270,080	\$ 16.84
Options granted	790,000	\$ 18.84
Options cancelled	(166,894)	\$ 22.08
Options exercised	(326,582)	\$ 7.89
Balance outstanding, November 30, 2004	3,566,604	\$ 17.86

The following summarizes information about stock options outstanding as at November 30, 2004:

Range of exercise prices	Number of options outstanding	Weighted average remaining life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$ 2.77 to \$ 14.18	704,712	1.2 years	\$ 10.99	702,712	\$ 10.98
\$ 14.52 to \$ 14.52	725,000	4.8	\$ 14.52	-	\$ -
\$ 16.87 to \$ 18.46	440,200	4.2	\$ 17.68	272,700	\$ 17.79
\$ 18.94 to \$ 18.94	691,667	8.6	\$ 18.94	-	\$ -
\$ 20.73 to \$ 22.53	598,300	4.5	\$ 22.46	314,900	\$ 22.43
\$ 23.53 to \$ 27.73	406,725	3.5	\$ 27.27	320,637	\$ 27.14
	3,566,604	4.5	\$ 17.86	1,610,949	\$ 17.59

The outstanding stock options have expiry dates ranging from January 2005 to December 2013. The Company or employee is required to meet performance criteria for certain of the options to vest.

During 2004 the Company granted 790,000 options (2003 - 130,000) and recorded \$1.8 million (2003 - \$0.1 million) in compensation expense and contributed surplus in respect of the options granted during the year. The fair value of options granted during 2004 has been estimated at between \$2.72 and \$5.41 per share (2003 - \$6.10 per share) using the Black-Scholes option-pricing model. The following range of assumptions were used to determine the fair value of the options on the date of grant:

Risk-free interest rate	4.09% - 4.63%
Expected dividend yield	1.68% - 1.86%
Expected share price volatility	31.95% - 33.19%
Option term	7.0 to 10.0 years

**(b) Share Purchase Plan**

Under the Company's share purchase plan, eligible employees can have a percentage of their annual earnings withheld, subject to a maximum of 6%, to purchase the Company's Class B non-voting shares. The Company matches up to 60% of the amounts contributed by employees. All contributions are used by the plan trustee to purchase common shares on the open market. Shares purchased with Company contributions vest immediately. The Company's contributions are recorded in payroll costs. For the year ended November 30, 2004 these expenses totalled \$0.6 million (2003 - \$0.5 million).

## Note 14: Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share:

(\$000s, except per share amounts) Years ended November 30	2004	2003
Numerator		
Net income for the year	\$ 77,287	\$ 44,016
Denominator		
Weighted average number of shares – basic	91,315,426	91,926,350
Dilutive effect of employee stock options	482,807	920,429
Weighted average number of shares – diluted	91,798,233	92,846,779
Earnings per share:		
Basic	\$ 0.85	\$ 0.48
Diluted	\$ 0.84	\$ 0.47

## Note 15: Investor Compensation

On December 16, 2004, the Ontario Securities Commission (“OSC”) reached an agreement with four mutual fund companies (including AGF) over allegations of market timing in Canada’s mutual fund industry. As a result of the agreement, AGF has agreed to compensate individual investors in certain international funds targeted by market timers between August 2000 and June 2003. Included in selling, general and administrative expenses for the year ended November 30, 2004 is \$31.0 million in expenses relating to compensation of AGF unitholders.

## Note 16: Integration Costs

During fiscal 2003, Unisen Inc. moved the majority of its staff to one location and reviewed its staffing requirements. Also, the Company reassessed its lease termination costs in light of a change in the condition of the Toronto office real estate market. Based on this review the Company recorded a \$5.4 million integration charge for the year ended November 30, 2003, consisting of \$4.6 million in lease termination costs and \$0.8 million in severance costs.

## Note 17: Agreements with Mutual Funds

The Company acts as manager for the AGF Funds and receives management and advisory fees from the AGF Funds in accordance with the respective agreements between the funds and the Company. In return, the Company is responsible for management and investment advisory services and all costs connected with the distribution of securities of the funds. Substantially all the management and advisory fees the Company earned in 2004 and 2003 were from the AGF Funds. As at November 30, 2004, the Company had \$22.0 million (2003 - \$22.4 million) receivable from the AGF Funds. The Company also acts as trustee for the AGF Funds that are mutual fund trusts.

The Company directly provides unitholder services to the funds and is compensated for such services. These services are provided in the normal course of operations and are recorded at the amount of consideration agreed to by the parties. The aggregate unitholder services costs absorbed and management and advisory fees waived by the Company during the year were approximately \$6.6 million (2003 - \$4.8 million).

## Note 18: Related Party Transactions

The Company has entered into certain transactions with entities, the partners or senior officers of which are directors of the Company. During 2004, total amounts paid by the Company to these related parties aggregated \$0.1 million (2003 - \$0.1 million).

## Note 19: Supplemental Disclosure of Cash Flow Information

Interest payments in 2004 were \$24.2 million (2003 - \$28.3 million).

Income tax payments in 2004 were \$51.8 million (2003 - \$52.9 million).

## Note 20: 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 Company'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.

## notes to consolidated financial statements

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 note 1.

\$(000s) For the year ended November 30, 2004	Investment management operations	Fund administration operations	Trust company operations	Other	Inter- segment elimination	Total
External revenue	\$ 515,904	\$ 80,333	\$ 41,451	\$ 2,224	\$ -	\$ 639,912
Intersegment revenue	4,431	48,771	1,149	-	[54,351]	-
Segment revenue	520,335	129,104	42,600	2,224	[54,351]	639,912
Operating expenses	295,401	114,939	31,461	6,114	[54,351]	393,564
Amortization	144,777	15,486	1,203	-	-	161,466
Integration costs	-	-	-	-	-	-
Segment income (loss) before taxes	\$ 80,157	\$ [1,321]	\$ 9,936	\$ [3,890]	\$ -	\$ 84,882
<b>Included in external revenue</b>						
Interest revenue	\$ 815	\$ 31	\$ 39,392	\$ -	\$ -	\$ 40,238
Total assets	\$ 1,070,067	\$ 159,488	\$ 829,489	\$ 108,802	\$ -	\$ 2,167,846

\$(000s) For the year ended November 30, 2003	Investment management operations	Fund administration operations	Trust company operations	Other	Inter- segment elimination	Total
External revenue	\$ 476,838	\$ 76,583	\$ 34,687	\$ 12,724	\$ -	\$ 600,832
Intersegment revenue	4,808	51,917	1,192	-	[57,917]	-
Segment revenue	481,646	128,500	35,879	12,724	[57,917]	600,832
Operating expenses	223,125	116,323	29,481	9,740	[57,917]	320,752
Amortization	140,037	14,462	912	2,046	-	157,457
Integration costs	-	5,400	-	-	-	5,400
Segment income (loss) before taxes	\$ 118,484	\$ [7,685]	\$ 5,486	\$ 938	\$ -	\$ 117,223
<b>Included in external revenue</b>						
Interest revenue	\$ 885	\$ 96	\$ 30,536	\$ 6	\$ -	\$ 31,523
Total assets	\$ 1,123,294	\$ 144,122	\$ 590,888	\$ 108,692	\$ -	\$ 1,966,996

## Note 21: Commitments

The Company is committed under operating leases for office premises and equipment that require approximate minimum annual cash rental payments as follows:

	\$(000s)
2005	\$ 6,918
2006	6,594
2007	6,505
2008	4,925
2009	3,673
Thereafter	29,801

AGF Trust Company has outstanding mortgage commitments, at rates of interest prevailing at the time the commitments were issued, of \$57.7 million as at November 30, 2004 (2003 - \$14.3 million). Any interest rate commitment has a term of less than 60 days.

## Note 22: Guarantees

The Company, under an indemnification agreement with each of the directors of the Company as well as directors of the mutual fund corporations, has agreed to indemnify the directors against any costs in respect of any action or suit brought against them in respect of the proper execution of their duties. To date, there have been no claims under these indemnities and the Company does not anticipate that any will occur.

## Note 23: Contingent Liabilities

There exists certain claims and potential claims against the Company, including potential class action lawsuits related to the Company's agreement with the OSC. None of these claims or potential claims are expected to have a material adverse effect on the consolidated financial position of the Company.

## consolidated ten-year review

	2004	2003	2002	2001
Operations \$(000s)				
Total revenue	639,912	600,832	654,103	639,994
Net income	77,287	44,016	119,839	163,754
Dividends	37,474	27,150	22,967	19,577
Financial position \$(000s)				
Working capital (deficit)	53,597	49,611	95,287	(9,950)
Long-term debt	69,706	114,114	225,403	165,481
Shareholders' equity	914,366	903,360	887,566	764,707
Return on equity <sup>1</sup>	8.5%	4.9%	14.5%	26.3%
Per share (\$)				
Net income - basic	0.85	0.48	1.34	1.84
Dividends	0.41	0.295	0.255	0.22
Book value	10.08	9.79	9.74	8.56
Mutual fund assets under management at year-end \$(000,000s) <sup>2</sup>	22,747	23,168	23,549	27,827

<sup>1</sup> As percentage of average shareholders' equity for the year.

<sup>2</sup> Harmony Pools included for years 2001 and later.

2000	1999	1998	1997	1996	1995
508,681	356,703	288,822	236,759	178,993	87,628
95,931	61,710	48,777	40,489	22,403	16,896
14,092	11,642	9,970	6,491	6,272	6,159
[86,692]	55,348	40,186	30,903	5,476	84,638
278,051	72,048	81,422	38,000	60,000	72,950
480,091	284,244	233,383	192,173	115,565	62,366
25.1%	23.8%	22.9%	26.3%	25.2%	29.5%
1.23	0.80	0.64	0.55	0.37	0.34
0.18	0.15	0.13	0.09	0.10	0.13
5.78	3.64	3.03	2.53	1.85	1.26
26,979	18,705	15,015	12,429	10,075	4,471

## corporate governance practices

The Corporation establishes corporate governance practices that are consistent with the Toronto Stock Exchange's Guidelines for Corporate Governance and the proposed National Policy 58-201. The Corporation will continue to review its corporate governance practices in light of ongoing developments in this area. In particular, the Corporation will monitor recent guideline changes proposed by the securities regulatory authorities. The Corporation and its subsidiaries are engaged in highly regulated businesses and must comply with all the legislative and regulatory requirements for such businesses, including those of securities commissions and regulators of financial institutions.

### The Board of Directors

#### Mandate of the Board

The Corporation's Board has responsibility for the stewardship of the Corporation and discharges that responsibility by supervising the management of the business and monitoring the affairs of the Corporation. The Board has a written mandate, which is reviewed annually. The Board reviews and discusses with management, at least annually, all material relating to the strategic plan, which takes into account the risks and opportunities of the business. The Board also approves any transaction having a significant impact on the strategic plan and other significant decisions that affect the Corporation and its subsidiaries. The Board assesses the effectiveness of the Board Committees based on reports from the Committees. The Board appoints the Chief Executive Officer and other senior management and discusses succession planning with management.

The Board meets with senior executives on a regular basis in order to receive and consider reports on the affairs of the Corporation. The Board expects these reports to be comprehensive, accurate and timely. The Board approves all material communications to shareholders, including press releases. The Board receives and approves annual and interim reports to shareholders, including annual and interim financial statements and management discussion and analysis. The Board met 17 times for the fiscal year ended November 30, 2004. Each of C. Warren Goldring, Winthrop H. Smith, Jr. and David King missed one regularly scheduled Board meeting during the year. All other directors attended all regularly scheduled Board meetings.

#### Board Representation and Independence from Management

The Board comprises nine members, the majority of whom are unrelated to the Corporation and its subsidiaries. This means they are free from any interest and any business or other relationship that could reasonably be perceived to materially interfere with their ability to act within the best interest of the Corporation, other than interest arising from shareholding.

The independent directors on the Board are: Douglas L. Derry, Stuart E. Eagles, David King, Winthrop H. Smith, Jr. and William Morneau. Mr. Walter A. Keyser is an outside director.

Representatives of management on the Board are: Mr. C. Warren Goldring, Mr. W. Robert Farquharson and Mr. Blake C. Goldring, all of whom are "significant shareholders" of the Corporation. Mr. C. Warren Goldring, the Corporation's Chairman, together with trusts for the benefit of the Goldring family, owns, directly or indirectly, 80% of the outstanding AGF Class A voting common shares of the Corporation. Mr. W. Robert Farquharson, the Corporation's Vice-Chairman and Chief Investment Officer, owns, directly or indirectly, the remaining 20% of the AGF Class A voting common shares. Each of Messrs. C.W. Goldring and W.R. Farquharson also owns a significant number of AGF Class B non-voting shares.

## Committees of the Board

The Board has established three Committees: the Nominating and Corporate Governance Committee, the Audit Committee and the Compensation Committee. The mandate of each Committee is described below. Each independent director, who serves as Chairman of a Committee, is responsible for directing the meetings of the Committee and for ensuring that the roles and responsibilities of the Committee have been met. The Chairman of the Committee is also responsible for reporting to the Board on those matters that the Committee dealt with since the last regular meeting of the Board. Each Committee regularly examines its effectiveness in fulfilling its roles and responsibilities and reports its findings to the Board. The Committees may convene meetings without management present whenever the Committees feel it is necessary. Each Chairman also acts as a liaison between management and the Board.

### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee has three members: Stuart E. Eagles (Chair), Walter A. Keyser and William Morneau, all of whom are outside directors and two of whom are unrelated.

This committee develops the Corporation's approach to governance issues and is actively involved in assessing the Corporation's compliance with corporate governance guidelines, including evaluating the size of the Board, its Committees and its members. This committee regularly reviews corporate governance developments and makes recommendations to the Board on all such matters. It also develops the mandates for the Board and for each Board Committee, which are reviewed annually by the Committee in order to make recommendations for any changes to the Board. The committee also reviews and approves all individual directors' requests to engage an outside advisor at the Corporation's expense.

This committee also develops programs and makes recommendations for the continuing education of existing directors and the orientation of new directors. The Corporation regularly provides directors with updates on the mutual fund and financial services industries and briefings on industry practices relating to corporate governance and other relevant issues.

This committee recommends proposed new directors and establishes appropriate criteria for directors. The committee also reviews director compensation for adequacy and form of compensation, ensuring compensation is appropriate for the responsibilities and risks assumed by the directors. The Nominating and Corporate Governance Committee approves the Corporation's disclosure policy, which includes standards for communicating with analysts and the public. Additionally, the committee develops a position description for the Chief Executive Officer, which is reviewed every three years.

During the year ended November 30, 2004, the Nominating and Corporate Governance Committee met three times. These meetings included sessions at which management was not present.

### Audit Committee

The Audit Committee has three members: Douglas L. Derry (Chair), David King and Winthrop H. Smith, Jr., all of whom are outside and unrelated directors. All members of the Audit Committee are financially literate.

This committee is directly responsible for overseeing the work of the Corporation's external auditors. It is also responsible for recommending the appointment of the Corporation's external auditors, subject to shareholder approval, as well as reviewing their independence and objectivity. The committee pre-approves all non-audit services performed by the Corporation's external auditors to ensure that the performance of those services will not compromise their objectivity or independence. The Audit Committee is responsible for conducting reviews and inquiries of the Corporation's management and the internal and external auditors, as it deems necessary. The purpose of such a review or inquiry is to establish that the Corporation and its subsidiaries are applying appropriate systems of internal controls to address the principal risks of the Corporation, and to fulfill legislative and regulatory requirements.

In a report to the Audit Committee, the Corporation's management reported that procedures will be implemented in early 2005 for the receipt, retention and treatment of complaints regarding internal accounting controls or auditing matters, and the confidential, anonymous submission by the Corporation's employees regarding questionable accounting and auditing matters.

The effectiveness of internal controls in managing principal risk exposures is reviewed and evaluated by the Corporation's internal auditors, who report to the Audit Committee at least quarterly. The Audit Committee reviews and makes a report to the Board before the approval of the annual and interim financial statements and Management's Discussion and Analysis (MD&A).

The Audit Committee routinely meets with the internal and external auditors without management's presence. During the year ended November 30, 2004, the Audit Committee met four times.

### **Compensation Committee**

The Compensation Committee has three members: William Morneau (Chair), David King and Winthrop H. Smith, Jr., all of whom are outside and unrelated directors. The Compensation Committee reviews and approves executive officers' base salaries, bonuses, long-term incentives, retirement benefits and other compensation. The Compensation Committee also reviews processes and policies for establishing compensation and benefit levels, including the granting of stock options. Directors are encouraged to own AGF Class B non-voting shares by participating in the AGF Share Purchase Plan. Executive officers who are also directors do not receive any compensation for their services in their capacities as directors. For further information, refer to AGF's Annual Information Form, which can be accessed at [www.sedar.com](http://www.sedar.com).

During the year ended November 30, 2004, the Compensation Committee met five times.

### **Shareholder Communication**

The Corporation believes that shareholder communication and feedback are essential. This belief is based on the stake shareholders have in the Corporation's business and the importance to shareholders of ensuring that trading prices and volumes of the Corporation's Class B non-voting shares are not adversely affected by a lack of information in the marketplace. The Chief Executive Officer or another senior officer of the Corporation promptly responds to shareholder inquiries.

### **Code of Ethics**

All directors, officers and employees of the Corporation and its subsidiaries are subject to a Code of Ethics that outlines the standards by which they must conduct themselves in their business dealings. Compliance with the Code is a matter of utmost importance and a breach of any of its provisions is grounds for a warning, revision of responsibilities, suspension or dismissal, with or without notice, depending on the particular circumstances. The Code sets out specific rules dealing with conflicts of interest, confidential information, insider trading, personal trading by investment managers and others with access to information used in making investment decisions, and a variety of other matters. From time to time, as appropriate, the Code is supplemented by memoranda delivered to directors, officers and employees clarifying or expanding provisions of the Code. All directors, officers and employees of the Corporation and its subsidiaries are required to review and sign the Code of Ethics annually.

## BOARD OF DIRECTORS

### AGF MANAGEMENT LIMITED AND AGF TRUST COMPANY

Douglas L. Derry, FCA <sup>4</sup>  
Stuart E. Eagles <sup>5,6</sup>  
W. Robert Farquharson, CFA  
Blake C. Goldring, CFA <sup>2</sup>  
C. Warren Goldring <sup>1</sup>  
Walter A. Keyser  
David King  
William Morneau <sup>7</sup>  
Winthrop H. Smith, Jr.

### MUTUAL FUND CORPORATIONS AND TRUSTS

Philippe Casgrain, Q.C.  
Clive H.J. Coombs  
W. Robert Farquharson, CFA  
C. Warren Goldring  
David Hale  
H. Ian Macdonald  
Joseph E. Martin  
John B. Newman <sup>3,4</sup>

### AGF ASSET MANAGEMENT ASIA LTD.

W. Robert Farquharson, CFA <sup>3</sup>  
Blake C. Goldring, CFA  
Dr. Soo Ann Lee  
Yong Siang Lee  
Eng Hock Ong <sup>8</sup>

### AGF INTERNATIONAL ADVISORS COMPANY LIMITED

John L. Arnold  
Joseph D. Casey  
W. Robert Farquharson, CFA  
C. Warren Goldring <sup>3</sup>  
Christopher Charles Lyttelton  
Brian S. Perry  
Ian Steers

<sup>1</sup> Chairman of the Board of AGF Management Limited

<sup>2</sup> Chairman of the Board of AGF Trust Company

<sup>3</sup> Chairman of the Board

<sup>4</sup> Chairman of the Audit Committee

<sup>5</sup> Chairman of the Nominating and Corporate Governance Committee of AGF Management Limited

<sup>6</sup> Chairman of the Conduct Review Committee of AGF Trust Company

<sup>7</sup> Chairman of the Compensation Committee of AGF Management Limited

<sup>8</sup> Pending regulatory approval

## EXECUTIVE OFFICERS

### AGF MANAGEMENT LIMITED AND AGF FUNDS INC.

C. Warren Goldring  
Chairman of the Board  
Blake C. Goldring, CFA  
President & Chief Executive Officer  
W. Robert Farquharson, CFA  
Vice-Chairman &  
Chief Investment Officer  
Clive H.J. Coombs  
Executive Vice-President  
Randy Ambrosie  
Executive Vice-President,  
Sales & Marketing  
Judy G. Goldring, LL.B  
Senior Vice-President &  
General Counsel  
Greg Henderson, CA  
Senior Vice-President &  
Chief Financial Officer  
Beatrice Ip  
Senior Vice-President,  
Corporate Secretary & Chief Auditor

### SUBSIDIARIES

AGF PRIVATE INVESTMENT  
MANAGEMENT LIMITED  
Merri Jones  
President & Chief Executive Officer

AGF TRUST COMPANY  
Mario Causarano, CA  
President & Chief Operating Officer

UNISEN INC.  
Robert Smuk  
President & Chief Executive Officer

INVESTMASTER GROUP LIMITED  
Tom Brady  
Managing Director

## PORTFOLIO MANAGERS

W. Robert Farquharson, CFA  
Vice-Chairman &  
Chief Investment Officer  
Clive H.J. Coombs  
Executive Vice-President  
Scott D. Colbourne, CFA  
Senior Vice-President  
Anthony Genua, CFA  
Senior Vice-President  
Keith Graham, CFA  
Senior Vice-President  
Martin Hubbes, CFA  
Senior Vice-President  
Christine Hughes, CFA  
Senior Vice-President  
Stephen W. Way, CFA  
Senior Vice-President  
Charles Oliver, CFA  
Vice-President  
Patricia Perez-Coutts, CFA  
Vice-President  
Cameron Scrivens  
Vice-President  
Margaret Shaw, CFA  
Vice-President  
Tristan Sones, CFA  
Vice-President  
Zoran Vojvodic, CFA  
Portfolio Manager

AUDITORS  
PricewaterhouseCoopers LLP

REGISTRAR AND  
TRANSFER AGENTS  
Computershare Trust  
Company of Canada  
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STOCK EXCHANGE LISTING  
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## AGF CORPORATE DIRECTORY

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34 Molesworth Street  
Dublin 2, Ireland

AGF ASSET MANAGEMENT  
ASIA LTD.  
80 Raffles Place  
#44-03, UOB Plaza 1  
Singapore 048624

UNISEN INC.  
2920 Matheson Blvd. East  
Mississauga, ON L4W 5J4

INVESTMASTER GROUP LIMITED  
Princes House  
95 Gresham Street  
London EC2V 7NA, England



What are you doing after work?

**AGF  
MUTUAL  
FUNDS**

**AGF TAILORED  
INVESTMENT  
PROGRAMS**  
Harmony

**AGF PRIVATE  
INVESTMENT  
MANAGEMENT**

**AGF  
TRUST**