

AGF Management Limited ANNUAL REPORT 2006

Change. Focus. Results.



What are you doing after work?[®]

Corporate Profile

AGF is one of Canada's leading independent investment management firms, with strong roots going back to 1957. Through its offices across Canada and its subsidiaries around the world, AGF has a proud history of delivering top-quality products and services through a broad distribution network to more than one million investors.

With approximately \$43 billion in total assets under management, AGF strives to be the premier provider of investment management and financial solutions to retail, institutional and high-net-worth clients.

AGF's products and services include a diversified family of over 50 mutual funds, AGF Harmony tailored investment program, the evolutionary AGF Elements portfolios, AGF Private Investment Management and AGF Trust GICs, investment loans and real estate secured loans. AGF trades on the Toronto Stock Exchange under the symbol 'AGF.B'.

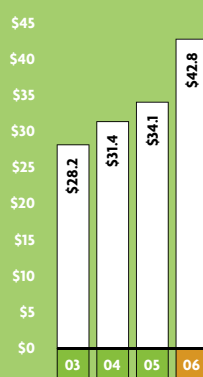
2006: A year of continued strong results

- 2006 was our third year of consecutive increases in revenue. Revenue for fiscal 2006 increased 18.4% over 2005.
- Total AUM continued to rise during 2006 after several years of solid gains. Total AUM rose 25% during the year.
- During our fiscal year AGF Class B Shares were up 16% on the Toronto Stock Exchange.

Total Revenue Continuing Operations
(\$ million)



Total AUM
(\$ billion)



Share Price AGF.B
As at November 30



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a winning STRATEGY

AGF is positioned to deliver **strong returns** to its shareholders because of exceptional operating performance and the synergies we are able to realize across each of our business units. The following is evidence that **our strategy is working**:

- › AGF had the highest net sales of long-term funds of any non-bank mutual fund firm in Canada in October and November of 2006.
- › Our strong reputation for international investment management provides significant growth opportunities.
- › We have a superior track record of consistent growth at AGF Trust and strong synergies with investment management.
- › AGF Private Investment Management provides a strong platform for future prospects in the investment counselling business.
- › Ten-year track record of returning free cash flow to shareholders through increased dividends.
- › Total AUM increased by \$8.7 billion or 25% to \$43 billion in fiscal 2006.

Overview

AGF Management Limited is one of Canada's leading independent investment management companies with offices across Canada and subsidiaries around the world. Throughout its 50-year history, AGF has been committed to a client-centric approach of providing excellence in money management to meet and exceed the needs of its retail and institutional clients.

AGF has three strong platforms for growth that generate significant opportunities for strategic synergies. This unique business model and seamless integration across platforms positions AGF well among its peers and competitors in Canada.

Through its focus on product, relationship and investment management, AGF has built sustainable momentum across each business unit and is poised to continue delivering solid returns to its shareholders.

Investment Management

AGF Investment Management

AGF is committed to being the investment manager of choice for retail and institutional clients, driven by long-term performance across investment styles and products. A team of more than 40 professionals supports an award-winning product offering across investment styles, asset classes and geographies. Retail investors have access to an award-winning lineup of more than 50 mutual funds.

- > **Strategy:** Build predictable excellence in client relationships, investment management and product management.
- > **Accomplishments:** AGF delivered the best investment performance amongst the top 10 firms in the Canadian mutual fund industry by assets under management (AUM), with the highest percentage of funds ranked in the top quartile over both the one- and three-year periods ended November 30, 2006. At the 2006 Canadian Investment Awards, AGF was named Advisors' Choice Favourite Investment Fund Company of the Year and also won awards for five of its mutual funds.
- > **Outlook:** Performance at AGF continues to be strong and momentum generated in 2006 is expected to translate into continued positive net sales throughout 2007.

Investment Loans and Mortgages

AGF Trust

AGF Trust delivers top quality products via investment loans and mortgages delivered through the investment advisor and mortgage broker channels. Synergies are achieved through the provision of investment loans in the advisor channel, which, when the funds are invested in AGF mutual funds, leads to growth in overall investment management AUM.

- › **Strategy:** Focus on infrastructure and client service to ensure that AGF Trust can grow prudently while managing risk and maximizing client satisfaction.
- › **Accomplishments:** Total assets at the end of 2006 were \$2.8 billion, a 79% year-over-year increase. Investment loan assets grew 48% and the real estate secured loan assets grew 91%.
- › **Outlook:** The outlook for AGF Trust is positive. Both business lines have experienced strong growth and are poised to continue delivering solid performance results. Growth will be managed to ensure that service levels are maintained.

Investment Counselling

AGF Private Investment Management

AGF Private Investment Management ('AGF PIM') is an investment counsellor to high-net-worth individuals and it provides institutional and sub-advisory services to clients through a network of offices across Canada.

- › **Strategy:** Build on the strengths of AGF PIM's offices throughout Canada by using a "Philosophy + People + Process = Performance" discipline.
- › **Accomplishments:** In 2006, AGF PIM generated strong organic growth of over 16% in total AUM. The acquisition of Highstreet Partners Limited in December 2006 added nearly \$5 billion in AUM, bringing total AUM to more than \$11 billion. It also gave AGF access to Highstreet's proven quantitative style of investing.
- › **Outlook:** The prospects for AGF PIM are underpinned by strong demographic trends in Canada, with the number of new high-net-worth individuals growing. There is also a vast market to tap in the institutional and sub-advisory market in Canada, and AGF PIM's proven track record of delivering results to clients in this area will be leveraged to drive future growth.

“Our investment management expertise is recognized by organizations around the world – a key accomplishment that bodes well for our future.”

Blake C. Goldring, CFA
Chairman and Chief Executive Officer

delivering
RESULTS

Total shareholder return was

30%

for the past twelve months

AGF enters its 50th year of serving clients in 2007.

Investment performance, the core value proposition we offer to clients, has been exceptional. AGF finished the year in a leadership position and consistently had the best investment performance among the top firms in the industry in 2006. Over one- and three-year periods, AGF had the highest percentage of funds in the first quartile among the top 10 firms in the industry by assets for the period ended November 30, 2006, our fiscal year-end. In addition, using IFIC monthly assets and sales figures, AGF's compound returns were the highest of the top 10 firms in the industry over 12- and 24-month periods ended November 30, 2006.

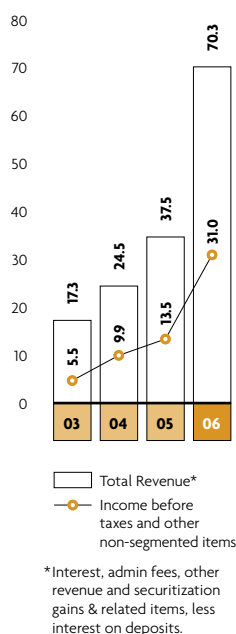
Within our core retail mutual funds business, we reached a level of net sales – an indicator of unitholder confidence and satisfaction – that made us the best performing non-bank mutual fund firm in Canada. In November alone, we reported gross sales in excess of half a billion dollars, and net sales of nearly \$225 million. This gives us good momentum to start our new fiscal year as we move into the busy RSP selling season. These sales results are proof positive that we have enhanced the vital relationships we have with valued independent advisors.

Our results-driven culture also paid off in major external recognition of our performance as an investment management firm. At the 2006 Canadian Investment Awards, AGF was named Advisors' Choice Favourite Investment Fund Company of the Year, based on criteria that include quality and range of products, performance and service. Five of our mutual funds were also recognized for excellence, making us the 2006 winner of the most awards overall at this prestigious event.

Our investment management expertise also translated into substantial growth in 2006 on the institutional side of our business, both domestically and internationally. By the end of November 2006, institutional assets under management increased to more than \$9.4 billion, representing growth of 49% from the previous year. This demonstrates that our investment management expertise is recognized by organizations around the world – a key accomplishment that bodes well for our future.

Outstanding results were also driven within both AGF Trust and AGF Private Investment Management ("AGF PIM").

AGF Trust Growth
(\$ millions)



Our trust business has generated an average annual compound growth rate in assets of 63% over the past five years and we expect momentum to carry through 2007 and beyond.

AGF PIM posted an organic growth rate in assets under management of 16% in 2006 and its results' potential was significantly strengthened in 2006 with the acquisition of 80% of Highstreet Partners Limited.

This acquisition added nearly \$5 billion in assets under management, raising AGF PIM's asset base to more than

\$11 billion. Moreover, it added another top-notch firm to the AGF PIM group of companies. Highstreet has superb client service processes and, most important, adds its proven quantitative style of investing. Rob Badun, formerly the chief executive officer of Highstreet, has assumed the role of president, AGF Private Investment Management.

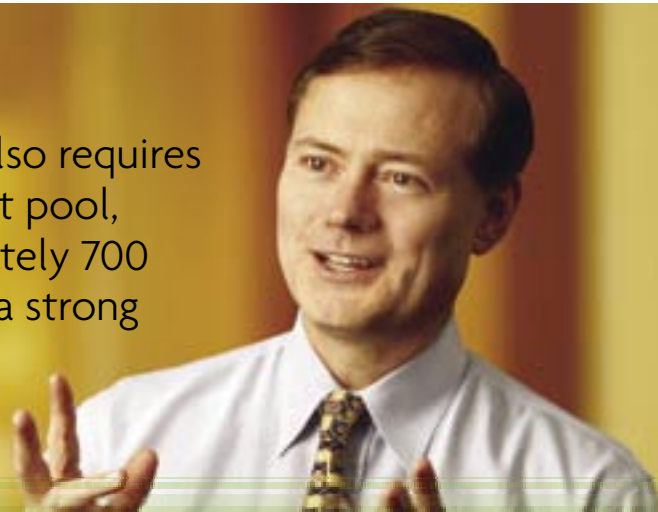
We take satisfaction from these results and developments because we know that continuing our tradition of excellence will benefit all of our valued stakeholders.

Value for Shareholders

For our shareholders, total return for the past 12 months ended December 31, 2006, assuming reinvestment of dividends, was 29.6%, a 12.3% premium to the S&P/TSX Financials Sector Total Return Index.

In January 2007, we announced a dividend increase, which brought our annualized payout to 80 cents per share. This is the tenth consecutive year we have

“Our vision of building leadership also requires that we sustain and grow our talent pool, which today consists of approximately 700 dedicated professionals as well as a strong leadership team.”



increased our dividend. AGF was recently recognized in a *Globe and Mail* article that highlighted AGF as one of approximately 54 companies that have paid dividends for 25 years or more. We clearly recognize the importance of dividends to our shareholders.

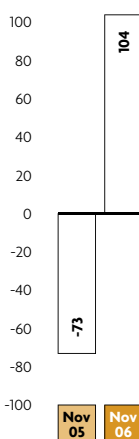
We are proud that we delivered these results while maintaining a strong financial position from which to continue to fund growth and drive future results. The prudent management which has resulted in increasing shareholder value has been accomplished by maintaining a strong board of directors. In 2006 we welcomed Donald G. Lang to the board. A seasoned business executive, Donald currently serves CCL Industries Inc. as vice chairman and CEO, and is a welcome addition.

Vision

AGF is a great company that became much bigger and better in 2006. However, we have never put size ahead of striving for long-term value for shareholders. Now, and in the future under my leadership, we seek to achieve strong performance measured by common metrics such as net sales and growth in assets under management – as well as something even more fundamental: the satisfaction of our customers. The ability to fuse excellent investment performance with genuine client satisfaction is the formula we believe will generate sustainable results and leadership for AGF in the future.

One of the ways we can satisfy clients and generate results is to further position AGF to meet the trend toward global investing.

Monthly Net Sales of International Equity (\$ millions)



In Canada, this trend has been fuelled by changes introduced in recent years to RSP foreign content rules. With our focus on international investing, supported by dedicated resources in areas like Dublin and Singapore, AGF is well-positioned to capitalize on this ongoing trend. In fact, AGF traces its roots back to 1957 when it introduced the American Growth Fund, which ultimately became the root of our name. This was an early example of leadership – in fact, at the time, we were the first company to offer Canadian investors a mutual fund

focused on investing in American companies.

As we enter our 50th year, we look back fondly on that tradition of being the first to offer investors access to new markets.

Whether it was Japan or China, or the introduction of the first global government bond fund, we were always quick to leverage our international expertise for the benefit of our clients. We will continue to do so going forward.

Our vision of building leadership also requires that we sustain and grow our talent pool, which today consists of approximately 700 dedicated professionals as well as a strong leadership team. Today, I am proud to say that each member of this leadership team has a proven track record of business success and fully subscribes to the ingredients that have made AGF successful: a disciplined focus and a results-driven orientation.

Together, we share core values that foster a culture of achievement.

2007 Agenda

In 2007 and beyond we want to accelerate the momentum we generated and advance the leadership we earned in 2006. To do this, we will apply our four-part strategy:

- › improve the client-centric model in our core fund business while growing revenue and controlling expenses;
- › capitalize on strategic synergies within businesses (example: AGF PIM offices) and between businesses (example: AGF Funds Inc. and AGF Trust);
- › promote international investment management competency across multiple channels;
- › pursue opportunistic accretive acquisitions that support growth in the core business and meet return-on-investment targets.

Looking Forward

As we move into 2007, I am confident that our business is poised for continued prosperity in all areas. We entered the year with considerable momentum in each of our business lines and we look to build on this momentum to generate even greater results – including results during the 2007 RSP season, a prime nexus point between our clients and our products.

Tribute

Celebrating our golden anniversary as a company is a monumental achievement for AGF. For Warren Goldring, the founder of the company, it is a truly special milestone. His vision laid the foundation for what has become one of Canada's truly great and enduring investment management firms. A tribute to his career and contribution to AGF's success can be found on the inside back cover of this annual report.

We thank Warren for his **hard work** and for the **legacy** he leaves behind in our hands to nurture and grow for **generations to come**.

Thanks

AGF's success is the result of strong, enduring relationships built on shared expectations and trust. These relationships enable us to work effectively with all who are part of our business – shareholders, unitholders, clients, employees and advisor-partners. I thank each of you for your contributions in 2006 and I look forward to sharing the benefits of our collective results with you in 2007. I would also like to thank our board of directors, including Stuart Eagles, a retiring member of the board who has served AGF since 1995.

Yours sincerely,



Blake C. Goldring, CFA

Chairman and Chief Executive Officer

FINANCIAL Management



“Our primary responsibility is to effectively and efficiently leverage our growing scale so that we can reward our shareholders with higher profits.”

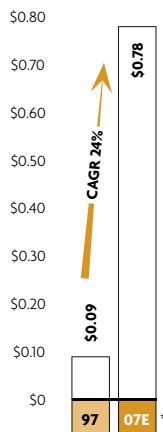
Greg Henderson, CA
Chief Financial Officer

We are proud of the many milestones AGF achieved in 2006. We finished the year as Canada’s top non-bank firm measured by net sales. Our total assets under management (‘AUM’) increased 25.3% over the prior year. And, our investment performance was industry leading.

We also made sizeable investments, both in people and infrastructure, to ensure that we keep up with the demands of growth and ensure the retention of those who are responsible for achieving these outstanding milestones. This was in line with the origins of our

strategy, which is to grow the various businesses within the group. To be clear, however, we understand that our primary responsibility is to effectively and efficiently leverage our growing scale so that we can reward our shareholders with higher profits.

Annual Dividend Paid per Share



*Assumes one \$0.18 and three \$0.20 dividends will be paid in fiscal 2007.

Returning Cash to Shareholders

Our plan is to build sustainable, long-term improvement in profits and cash flows. As we grow, we are committed to delivering the rewards of these improvements directly to our shareholders through dividends and share buybacks. In 2006, we

did what we committed to do by delivering 65% of free cash flow to our shareholders in the form of dividends and through our share buyback program.

For the tenth consecutive year, AGF increased its **dividend payout**.

The last increase was announced in January 2007, bringing the annualized dividend rate to 80 cents per share. During fiscal 2006, we used \$15.9 million of free cash flow to repurchase 700,000 class B shares of AGF at an average price of \$22.67 per share.

Capital Management

In addition to dividends and share buybacks, free cash flow will be used in 2007 to fund the growth of AGF Trust. In 2006, we provided \$62.4 million in funding for this growing business and more is earmarked as the unit moves towards its goal of being self-financing by 2008.

As sales of mutual funds grow, funding deferred selling commissions will also put demands on our cash flow. AGF has a strong balance sheet and will fund these commissions internally. This is a valuable use of our resources because we know that adding to our mutual fund scale adds to the economic value of our franchise for shareholders.

Repatriation of IT Infrastructure

A key initiative of 2006 was the repatriation of IT infrastructure from Citigroup Global Transaction Services (formerly Unisen). This initiative allowed us to enhance and rationalize our IT infrastructure and provide the groundwork for future cost reductions, as well as improve our disaster recovery and business continuity capabilities within the organization.

Acquisitions

Going forward, we will look for acquisitions to supplement the expected strong organic growth of our existing business. This year we completed an important transaction with the acquisition of Highstreet Partners Limited in December of 2006. The Highstreet acquisition expanded our presence in the growing high-net-worth market and broadened our capabilities in the institutional market. Highstreet's investment style is quantitative, which is a complement to our existing investment management expertise.

In 2007 we will continue to seek acquisitions that meet our strict criteria. To qualify, an acquisition must:

- › support the growth of our business;
- › deliver value by being accretive to AGF shareholders;
- › generate a long-term, after-tax return on investment of more than 15%.

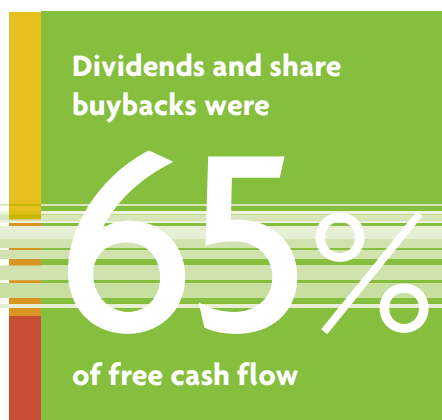
Outlook

In 2007, we have an excellent opportunity to deliver improved financial results. Our growing net sales, combined with a strong stock market, may position AGF for higher mutual fund AUM and lower fund absorption expenses.

We intend to use this positive environment wisely by looking for ways to translate increased scale into increased profits. Accordingly, control over Selling, General and Administrative expenses will be a priority for the organization in the years to come. We seek to improve return on equity and maximize the return of cash to shareholders.

Prudent and disciplined capital management will also remain a focus. Our ability to execute our growth plans is greatly enhanced by our strong financial position.

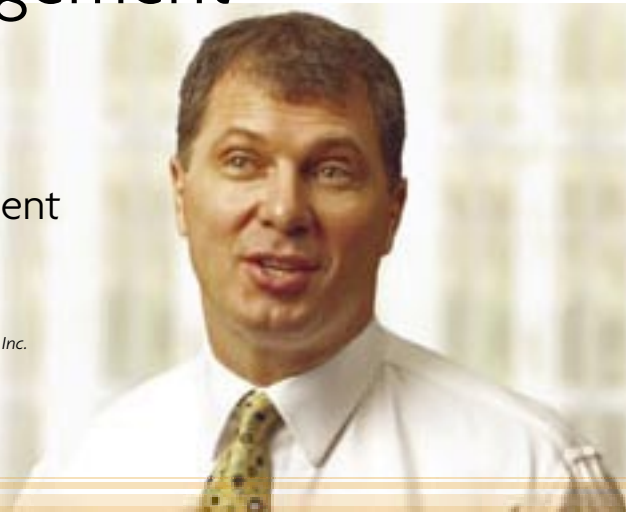
With little debt and strong growth prospects in all business lines, we are well-positioned to build on the momentum generated in 2006 to continue enhancing value for all shareholders.



AGF Investment Management

“Our business model focusing on product, relationship and investment management is clearly working.”

Randy G. Ambrosie
President, AGF Funds Inc.



AGF Funds Inc. delivered both superior investment and sales results in 2006. Most encouraging and exciting was our return to positive net sales – of \$437 million – for the year. We ended the year with the strongest November gross sales in our history, and that momentum has carried over into 2007 and the important RSP selling season.

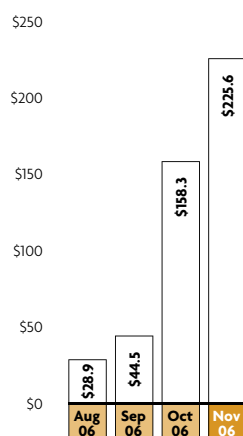
At the 2006 Canadian Investment Awards, AGF won top honours for five mutual funds and receive the prestigious Advisor’s Choice Favourite Investment Fund Company of the Year Award.

These results demonstrate that our client-centric approach, together with our business model focusing on product, relationship and investment management is clearly working.

Product Lineup

Our outstanding sales performance was powered by our product lineup. AGF boasts a fund family with investment styles and solutions for the diverse needs of investment advisors. Three funds in particular posted stellar net sales results in 2006. Elements, which was launched in November 2005, surpassed \$1 billion in AUM. Harmony, which started the year with \$1.4 billion, exceeded \$2 billion in AUM by year-end, and the AGF Dividend Income Fund, which had \$273 million at the beginning of the year reached \$828 million in AUM. Later in

Net Sales of LT Funds
(\$ millions)



the year our net sales broadened to many other funds, and international funds have become the new driver of our strong net sales. Over the past two years, AGF has seen its monthly net sales of long-term funds increase by \$475 million, generating a positive trend line. Our percentage growth in gross sales places us first amongst the top 10 firms in the mutual fund industry by assets and is currently twice as strong as our closest competitor.

Building Client Relationships

After two years of investment building our sales capability we focused our efforts on refining our sales organization in 2006. Listening more closely to our clients has been the key to our success in enhancing AGF’s client-centric business model. A key initiative was the launch of a program that evaluated our interactions with advisors. The purpose was to solicit feedback to measure the quality and effectiveness of our interactions with them. Feedback from the program was used to enhance our understanding of sales efforts that required further refinement and also to validate best practices.

One of the catalysts for this client-centric orientation was the enhancement of our customer relationship management program. We transformed this from a static to a dynamic tool for use in the field to capture client information in real time. Empowered with this information, we have put it to use to dramatically increase the number of investment advisors currently doing business with AGF.

A testament to our efforts to enhance the advisor experience with AGF was our improved rankings in the annual Environics Advisor Perception Survey Scores in 2006.



Our advisor satisfaction levels saw a **dramatic increase** in 2006 and our overall rating was **higher** than the industry average.

Investment Management

Investment management is one of the key drivers of our business. Strong results in this area can help spur success across the organization. In 2006, AGF was able to maintain industry-leading investment performance. Sales and marketing efforts across the organization are made easier by the consistent delivery of solid investment management performance.

Sharpening Our Institutional Capabilities

One of the quieter but more important success stories in 2006 was the creation of the infrastructure to support the growth of our institutional business. This included the development of compliance and reporting protocols and the building of relationships with the consulting industry. This has galvanized our ability to convey the AGF Investment Management story to an important audience and pursue new mandates.

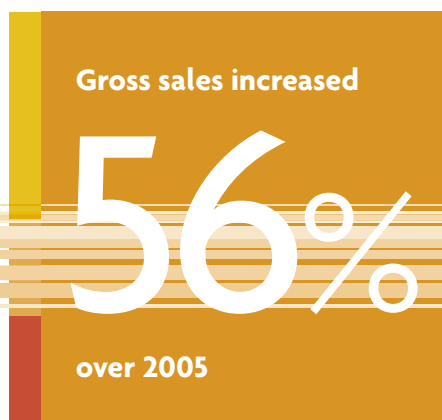
Outlook

Each and every day we strive to earn the right to do business with our clients. That is our overriding focus at AGF Funds. We believe our obligation in 2007 is to strengthen our commitment to predictable excellence in three core areas of our business: investment management, client relationships and product management. At the same time, we need to remember that we are also serving our shareholders, and translating business success into bottom-line profits is central to our approach for 2007.

Looking ahead, we are poised to continue building on the momentum generated in 2006. The depth and breadth of our product offering – particularly in the international segment – has us well-positioned for further gains. The strong performance across our fund lineup will facilitate deepening relationships with investment advisors. We now have the relationships and the right products structured in the right way.

In the year ahead, we will also focus on taking advantage of the back office economies of scale derived from the sale of Unisen to Citigroup. We believe that our relationship with Citigroup could add value to our clients by helping us minimize expense ratios for our funds.

Continuous improvement will be our mantra in 2007. It is what our clients expect and it is what we need to deliver. We have set the bar high and will remain hungry for improvement. Our unwavering focus will be on sustaining the momentum gained across all three core activities in 2007.





“One of the keys to successful money management is having the right people in the right roles.”

Martin Hubbes, cfa
*Executive Vice-President and
Chief Investment Officer, AGF Funds Inc.*

Our team's number one priority is to be the investment manager of choice for our clients. This means delivering consistent, long-term performance in all of our products.

In 2006, our team embraced this priority once again with outstanding results. Compared to the top 10 firms in the Canadian mutual fund industry by assets, AGF delivered the best investment performance of all. AGF had the highest percentage of funds ranked in the top quartile among our 10 industry peers over both one- and three-year periods ended November 30, 2006. In addition, using IFIC monthly assets and sales figures, AGF's compound returns were the highest of the top 10 firms in the industry over the 12- and 24-month periods ended November 30, 2006. This performance contributed to AGF having the highest growth rate in gross sales within its peer group.

The Right People

One of the keys to successful money management is having the right people in the right roles. We pride ourselves on our ability to put people in positions where they can succeed, and ultimately deliver returns to our clients. We have devoted a great deal of energy to define clear career paths for our employees, thus reducing turnover and allowing us to retain talented individuals.

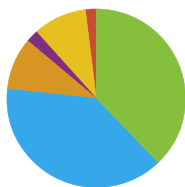
In 2006, we added another key player to our team with the addition of Jean Charbonneau as lead portfolio manager for AGF Global Government Bond Fund. As a member of the fixed income team – which includes Tristan Sones and Tom Nakamura – Jean also co-manages the AGF Canadian Bond Fund.

Changes were also made to strengthen the North American equity team. Two new research analysts were hired to support Tony Genua in his role as North American Research Director. Their value is being recognized through improved research and recommendations. This brings the number of research analysts on the North American team to seven.

The Right Funds

Putting the right people in place is just part of the equation. Having the right mix of products to meet all of our clients' investment needs is also critical. Today, we have 49 mutual funds to capture the investing preferences and risk tolerances of Canadians. Our funds offer different but proven investment styles and provide access, on a diversified basis to different industries, securities and geographies.

Total Mutual Fund AUM
(percent)



A good example of our product strength is our portfolio of 18 global and international funds. Most Canadians are under-exposed to international investments because of previous RSP foreign content restrictions. However, changes to tax legislation have opened the door to a world of growth and prosperity for Canadians and AGF has become the investment manager of choice for those wishing to exploit this significant potential in tax-sheltered investing.

Our team of global portfolio managers – which includes John Arnold and his team based in Dublin, Ireland – has the track record of performance and a product offering that is unrivalled among our peers in Canada.

One measure of this statement is the fact that our reputation in international investing has grown well beyond Canada's borders, and we are quickly becoming recognized as a world-class investment management organization.

As a result, we have won many international management mandates from foreign governments and institutions, and these mandates are adding significantly to our overall AUM. In 2006 alone, we secured almost \$1 billion in international mandates, in addition to \$1.7 billion in 2005.

Measuring Our Success

AGF continued its tradition of offering award-winning retail mutual funds to its clients. At the 2006 Canadian Investment Awards, AGF won top honours, taking home the Advisor's Choice Favourite Investment Fund Company of the Year award. We also won awards for five of our mutual funds. They are as follows:

- › AGF International Stock Class
- › AGF Global Financial Services Class
- › AGF Emerging Markets Fund
- › AGF Precious Metals Fund
- › AGF European Equity Fund Class

In addition, AGF Canadian High Yield Bond Fund was nominated for the High Yield Fixed Income Fund Award.

Focus

We made great progress against our 2006 objectives and in 2007 our primary focus will be on:

- › strengthening our international investment capabilities further;
- › continuing to enhance our research capabilities and coordination throughout the company;
- › investing in technology and infrastructure and improving operational support and capabilities;
- › attracting and retaining employees to ensure they are challenged and performing at maximum efficiency.

We look forward to working toward our long-term priority of being the investment manager of choice once again in 2007.





“As advisors seek to manage both sides of their clients’ balance sheets, AGF Trust will become even more strategically important to AGF’s vision.”

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

AGF’s vision is to be the premier Canadian provider of investment management and financial solutions. AGF Trust, as a provider of investment loans and mortgages, is fully aligned to support the realization of this vision.

As a case in point, during 2006, the AGF Trust sales team worked hand-in-hand with AGF’s mutual fund wholesalers to bring tangible value to our advisors’ businesses.

We were **rewarded** with tremendous demand for our investment **loan products**.

This is only one example of the strong synergies and teamwork present within AGF.

Another way we are demonstrating and further exploiting this strategic bond is a pilot project we successfully introduced to the advisor channel in 2006. Called HELOC (‘Home Equity Line of Credit’), it is a mortgage product that adds value to the mutual fund advisor relationship and to our partners’ businesses.

We are very aware that for many Canadians their homes represent their single largest asset. Knowing this, in the future, we will be able to assist advisors by further leveraging our many years of experience in the mortgage business to assist them in helping their clients use their homes as a financial planning tool to increase their wealth.

There are many possibilities and much potential still to be exploited. As advisors seek to manage both sides of their clients’ balance sheets, AGF Trust will become even more strategically important to AGF’s vision.

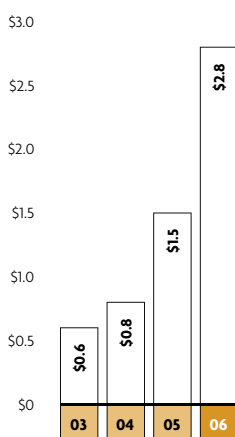
Committed to Growing

In addition to contributing to AGF’s vision, we are also committed to building, growing and sustaining the profits of our business.

Over the past five years, AGF Trust has achieved strong loan asset growth of 63%, on a compound-annual-growth-rate basis. This is outstanding – but the best is yet to come.

A critical assessment shows that there is ample room for growth in both our mortgage and investment loan businesses – the twin drivers of AGF Trust – because of the size of the markets they serve and our relatively small position in each.

AGF Trust Company Total Assets (\$ billion)



By small, we estimate that AGF Trust's mortgage portfolio today – which measures over \$1 billion – represents about 1.6% of Canada's \$65 billion sub-prime mortgage market and just 0.2% of the country's overall \$600 billion mortgage market. This represents an enormous market opportunity and one that we are exploiting in a serious

and focused manner through the well-established broker relationships we have developed, as well as our strong service ethic. Our business model and infrastructure positions us well for sustainable growth.

Turning Opportunity into Reality

Opportunity means nothing if it is not seized. AGF Trust understands this and we have acted accordingly. In 2006, we positioned ourselves for future growth through new additions to our dedicated sales forces in both our mortgage and investment loans business. We also expanded the geographic reach of our mortgage business with successful entries into Quebec, Alberta and British Columbia.

In each of these new markets we have generated steady gains, with exceptional performance in Alberta, Canada's hottest housing market. Each new market entry was propelled by the continued execution of our business model which leverages our experience with intermediaries.

Service: A Strategic Imperative

As we grow, we are committed to achieving a balance, and maintaining the high standards of service delivery our customers have come to expect. By controlling the volumes of new business we generate, we can service it properly, resulting in longer and deeper relationships with our clients in both the advisor and mortgage broker channels.

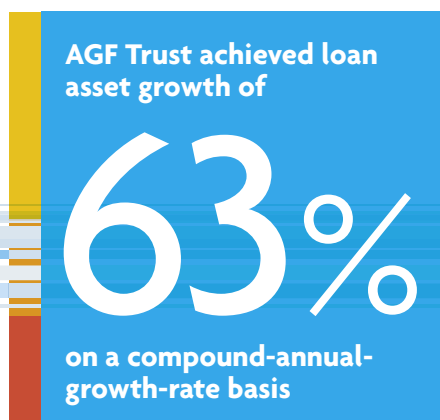
Our primary focus in 2007 is to continue investing in our service delivery and improving our clients' experience. Ultimately, this is what differentiates us today, and will do so long into the future.

Prudent Operational and Risk Management

AGF Trust Company, governed by the Trust and Loan Companies Act (Canada), is supervised by the Office of the Superintendent of Financial Institutions. AGF Trust prioritizes prudent operational and risk management in order to comply with regulatory requirements, but also as a means to ensure that our business grows in a responsible fashion.

Final Thought

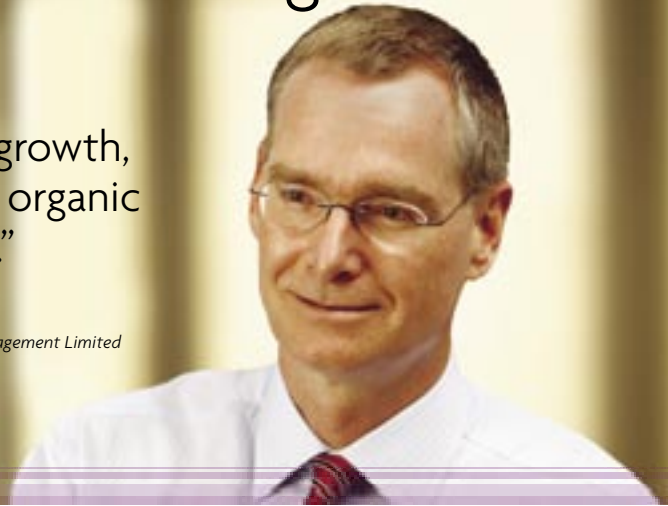
The outlook for AGF Trust is positive, and is supported by exceptional past performance and strong momentum in both business lines. Our aim is to sustain growth through diligent process control and risk management. Measured growth with disciplined oversight can help us achieve our ultimate aim of contributing consistently not only to AGF's earnings, but also to the value proposition it offers to clients.



AGF Private Investment Management

“AGF PIM has an enviable record of growth, achieved through a combination of organic initiatives and external acquisitions.”

Robert Badun
President, AGF Private Investment Management Limited



In my short time as a member of the AGF team I have come to quickly appreciate the results-driven culture that permeates the entire organization. This discipline will be maintained, as we look for ways to capitalize on the potential of the investment counselling business.

The potential of the private client and foundation portion of the business is underpinned by strong demographic trends in Canada that show a generation of baby boomers moving up the wealth continuum as they age. More people have more money than ever before to invest.

A similar opportunity exists through the provision of institutional and sub-advisory mandates across Canada. The growth potential in these markets relates to their overall size, which is vast. Most importantly, we have a proven track record delivering results to clients in these segments and that is the calling card that can help open doors for future growth.

Joining Forces with Highstreet

I joined the company on December 1, 2006, when AGF acquired 80% of Highstreet Partners Limited, which wholly owns Highstreet Asset Management Inc., an investment counsel firm based in London, Ontario.

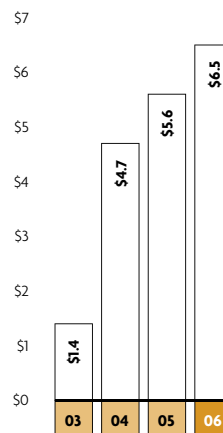
As one of the founders and as CEO of Highstreet, I was excited to join forces with AGF. Our combination presents a compelling opportunity to build a best-in-class business, focused on serving the needs of our clients.

The combination of Highstreet and AGF Private Investment Management ('AGF PIM') has already

delivered a number of benefits to AGF, including:

- ▶ an expanded platform in the private client and foundation space;
- ▶ added strength in the institutional and sub-advisory businesses;
- ▶ growth in assets under management by nearly \$5 billion to more than \$11 billion;
- ▶ access to Highstreet's unique quantitative style of investing.

PIM Assets Under Management
(\$ billion)



Most of all, this combination is about synergies – not traditional cost savings, but the potential growth synergies provided by this transaction. With an expanded platform, an enhanced national network, and improved ability to share ideas and best practices, we are confident we can capture these synergies and also achieve superior results across AGF PIM.

Strategic Vision

Our top priority for AGF PIM firms is to develop a clear vision and strategy for growth. Part of the strategy will include ensuring that AGF takes advantage of Highstreet's proprietary quantitative investment process that has proven to consistently outperform key benchmarks. We will also look to leverage our institutional capabilities and capture more sub-advisory mandates.

The new strategy will also leverage the unique offerings of AGF PIM's other platforms: Magna Vista Investment Management in Montreal, P.J. Doherty & Associates in Ottawa and Cypress Capital Management in Vancouver and Calgary. The details of the strategic plan are currently being developed, but the overall guiding principles for the firm have been set. A simple equation illustrates the beliefs and culture we will promote:

$$\begin{aligned} & \text{Philosophy} \\ + & \text{People} \\ + & \text{Process} \\ \hline = & \text{Performance} \end{aligned}$$

When we talk about performance, we mean both the quality of client service and our investment performance. Maximizing performance in this way will ultimately maximize the value we can create for AGF shareholders.

Common Core Values

The decision to join forces was made easier by the fact that both Highstreet and AGF PIM share a set of core values. A commitment to high levels of personal service was already embedded across both organizations. Sharing important core values makes it easier to pursue growth and achieve synergies across the company.

AGF PIM has an enviable record of growth, achieved through a combination of organic initiatives and external acquisitions. It is a record of success that will be the bedrock upon which we fuel further expansion to deliver superior returns to our clients, and ultimately to AGF shareholders.

Our ultimate goal is to steadily increase the contribution that AGF PIM makes to AGF's earnings.



Objectives for 2006

1. Enhance client-centric model in core fund business
2. Promote international investment management competency across multiple channels
3. Leverage synergies between businesses to generate sales in core fund business
4. Pursue opportunistic acquisitions

Results for 2006

- › won Advisor's Choice Favourite Investment Fund Company of the Year at the 2006 Canadian Investment Awards
- › delivered industry-leading investment performance
- › AGF Elements reached \$1 billion in AUM
- › net sales of long-term funds were \$437 million in 2006, versus net redemptions of \$2.7 billion in 2005
- › AGF International Advisors Company Limited assumed role of portfolio advisor to AGF International Value Fund and AGF International Value Class
- › won almost \$1 billion in new international institutional mandates
- › significant portion of AGF Trust investment loans funded purchases of AGF mutual funds
- › acquired Highstreet Asset Management, which added \$4.8 billion in AUM on closing

Objectives for 2007

1. Continue to improve client-centric model in core fund business while growing revenue and controlling expenses
2. Capitalize on strategic synergies within businesses and between businesses
3. Promote international investment management competency across multiple channels
4. Pursue opportunistic acquisitions

2007 Plan

- › build predictable excellence in investment management, client relationship management and product management
- › maintain momentum and increase net sales position
- › look for collaboration opportunities between businesses that will add value to clients
- › position AGF as the international investment manager of choice for both retail and institutional clients
- › review strategic opportunities to maximize shareholder value

governance FOCUS

“ In June 2006, I was named chairman and chief executive officer of AGF. Then, as now, I was keenly aware of the responsibilities bestowed on me to guide one of Canada's leading investment management firms.”

Blake C. Goldring, cfa
Chairman and Chief Executive Officer

I take comfort knowing AGF has entrenched the discipline and proven processes necessary to make all of us effective stewards of the Company. These processes and the enthusiastic approach taken by our board today – as well as the AGF directors of the past – have allowed us to earn the confidence of investors by being a trustworthy organization for almost 50 years.

To us, the tradition of taking governance seriously goes far beyond meeting minimum compliance requirements. Our directors are actively engaged and approach their responsibilities to shareholders with purpose. These responsibilities include:

- ▶ formulation and approval of AGF's long-range and annual strategic and business plans;
- ▶ assessment of the affairs of the Company based on comprehensive and regular management reports and reports from our auditors and other advisors;
- ▶ approval of all material communications to shareholders to ensure clear, fair and accurate disclosure;
- ▶ assessment of the effectiveness of the various board committees and management.

As directors, we share a passion for AGF and a common bond with our shareholders: the bond of ownership. Direct ownership in the Company is the strongest method of ensuring fully aligned interests, and I am proud to report that all of our independent directors today own in AGF Class B Non-Voting Shares at least three times their annual retainer.

Thanks

In my first year as chairman and CEO, I am indebted to many people. However, I would like to offer a special thanks to Winthrop H. Smith Jr. As lead director, Winthrop chairs meetings of the independent directors and is a powerful force on our board that I rely on. I would also like to thank Stuart E. Eagles, a retiring member of the board. Stuart has served AGF since 1995 and I wish him well on behalf of all members of the board and AGF shareholders.

In 2006, we welcomed Donald G. Lang to the board of directors. A seasoned business executive, Donald currently serves CCL Industries Inc. as vice-chairman and CEO. Donald brings great international business experience to our board, having spent 24 years in progressive positions with CCL. His unique perspective and track record of creating shareholder value at CCL make him a welcome addition to our board.

The results we delivered in 2006 demonstrate the merits of an effective board that considers business issues within the frame of solid corporate governance. Our focus in 2007 is to continue to build on this success and momentum while living up to the high standards of governance that have been the hallmark of AGF for almost five decades.

Corporate Governance Practices

AGF Management Limited is committed to ensuring its corporate governance practices evolve with best practices. Moreover, AGF ensures these practices do more than simply meet published guidelines. Each of its directors is actively engaged in his duties as a steward of the corporation, tasked with the protection and promotion of shareholder interests.

AGF's corporate governance practices are reviewed on an ongoing basis in light of changing developments in this area. AGF is 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.

Best Practices in Corporate Governance in Place at AGF Management Limited

The board must assume stewardship of the corporation.	The board is responsible for the stewardship of AGF including overseeing the conduct of the business and affairs of AGF.
Board committees should be composed of independent directors.	All three of the board's committees meet independence guidelines.
The corporation must disclose the identity of the financial expert on the audit committee.	All members of the audit committee are financially literate.
Non-management directors must meet at regularly scheduled executive sessions without management.	At each meeting of the board and board committees, time is specifically reserved for independent discussion without management present.
An education program should be provided for new directors.	An orientation and education program is in place for all new directors. There is also a continuing education program for all directors.
The corporation must have a written code of ethics and conduct applicable to all directors, officers and employees.	All directors, officers and employees of AGF must acknowledge their adherence annually to AGF's code of business conduct and ethics.
Directors' interests should be aligned with those of shareholders.	All directors own at least three times their annual retainer in AGF Class B Non-Voting Shares.

The Board of Directors

Mandate of the Board

AGF's board has responsibility for the stewardship of the corporation, including overseeing the conduct of the business and affairs of the corporation. The board has a written charter that is reviewed annually. All material relating to the strategic plan, which takes into account the risks and opportunities of the business, is reviewed at least annually by the board and discussed with management. Any transaction having a significant impact on the strategic plan and other significant decisions that affect AGF is approved by the board. 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 executives.

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. All material communications to shareholders is approved by the board. Additionally, the board receives and approves annual and interim reports to shareholders, including annual and interim financial statements and management's discussions and analysis.

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 committee chairman, who is an independent director, 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 has 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

Members: Donald G. Lang (chair); William Morneau

- › Review, at least annually, the committee charter as well as the charters of the board and board committees and recommend to the board the adoption of or amendment to such charters.
- › Review and make recommendations to the board to facilitate effective decision-making.
- › Identify, review and make recommendations to the board regarding new director nominees.
- › Evaluate the contribution of each individual director.

Audit Committee

Members: Douglas L. Derry (chair); David A. King; Winthrop H. Smith, Jr.

- › Oversee the integrity of financial reporting.
- › Oversee internal controls and disclosure controls.
- › Oversee internal audit function, including the resolution of disagreements between management and the internal auditor regarding internal controls.
- › Be directly responsible for the selection, compensation, retention and oversight of the work of the shareholders' auditors, including the resolution of disagreements between management and the shareholders' auditors; the shareholders' auditors report directly to the committee.

Compensation Committee

Members: William Morneau (chair); David A. King; Winthrop H. Smith, Jr.

- › Review, assess and oversee the executive compensation policies and programs and monitor the overall effectiveness of the AGF Group's general compensation programs in achieving its strategic objectives.
- › Set performance objectives for the CEO that encourage the AGF Group's long-term financial success and regularly measure the CEO's performance against these objectives.
- › Review management plans for management succession of the corporation.
- › Review the compensation and performance objectives of all executive officers.

Code of Business Conduct and Ethics

All directors, officers and employees of AGF are subject to a code of business conduct and ethics (the 'Code') 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 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 a memorandum delivered to directors, officers and employees clarifying or expanding provisions of the Code. All directors, officers and employees of the AGF Group are required to review and sign the Code annually.

Full disclosure on corporate governance practices including board and committee charters is included in the Annual Information Form.

Independence from Management

AGF Management Limited's Board has eight directors, the majority of whom are independent from management. The independent directors are: Douglas L. Derry, David A. King, Winthrop H. Smith Jr., William Morneau and Donald G. Lang. Walter A. Keyser is an outside director. Representatives from management on the board are Blake C. Goldring and W. Robert Farquharson, both of whom are significant shareholders in the Company.

Douglas L. Derry (2000)

Corporate Director

Douglas L. Derry is a former partner at PricewaterhouseCoopers, LLP, where he worked for 29 years until 1997. Mr. Derry sits on the board of several public and private corporations. Mr. Derry holds an Honours BA in Business Administration from the Richard Ivey School of Business at the University of Western Ontario and is a Fellow of the Institute of Chartered Accountants of Ontario.

W. Robert Farquharson (1977)

Vice-Chairman, AGF Management Limited

W. Robert (Bob) Farquharson serves as vice-chairman at AGF. He joined the company in 1963 as an analyst and today remains as a portfolio manager. Mr. Farquharson earned a Bachelor of Commerce degree from the University of Toronto and holds the Chartered Financial Analyst designation. He is also chairman of AGF Asset Management (Asia) Limited and AGF International Advisors Company Limited.

Blake C. Goldring (2000)

Chairman and CEO, AGF Management Limited

Blake C. Goldring joined AGF in 1987 and held a series of senior positions before being appointed president and COO in 1997, CEO in 2000 and chairman in 2006. Prior to that, he worked in corporate banking for a major Canadian bank. Mr. Goldring holds a degree in economics from the University of Toronto and an MBA from INSEAD in France. He holds the Chartered Financial Analyst designation and is a member of the Toronto Society of Financial Analysts and is a Fellow of the Institute of Canadian Bankers. He is also chairman and CEO of AGF Trust Company.

Walter A. Keyser (1973)

President, W.A. Keyser & Associates Ltd.

Walter A. Keyser is president of W.A. Keyser & Associates Ltd., a firm he founded in 1978. Prior to that, he spent more than 20 years working in financial services. His career includes the position of chairman and CEO of Heitman Financial Services Canada Ltd., a Chicago-based multinational real estate investment management firm, as well as 14 years at an investment dealer. Mr. Keyser holds an Honours BA from the Richard Ivey School of Business at the University of Western Ontario. Mr. Keyser serves on a number of public and private boards.

David A. King (1988)

President, David King Corporation

David A. King has a long history in North American real estate markets, commencing in the early 1960s with Sears Canada's real estate department. He was a senior officer of Cambridge Shopping Centres Limited for six years and was a senior officer and president of Campeau Corporation for 15 years. Since 1988, Mr. King has pursued various private business interests. He is currently vice-chairman and director of Morguard Corporation, chairman and trustee of Morguard Real Estate Investment Trust, director of Revenue Properties Company Limited and Tri-White Corporation and president of David King Corporation.

Donald G. Lang (2006)

Vice-Chairman and CEO, CCL Industries Inc.

Donald G. Lang has spent 24 years in progressive positions with CCL Industries, an international consumer products packaging company, working with corporate teams in North America and Europe. Mr. Lang previously served as an advisory board member for the Richard Ivey School of Business at the University of Western Ontario, from which he holds an Honours degree. Mr. Lang serves on a number of public and private boards.

William Morneau (2000)

President & CEO of Morneau Sobeco

William (Bill) Morneau joined pension and benefits consulting firm Morneau Sobeco in 1987 and held a series of progressively senior positions. He became president in 1992 and president and CEO in 1998. Mr. Morneau holds a BA from the University of Western Ontario, an MSc in economics from the London School of Economics and an MBA from INSEAD in France.

Winthrop H. Smith, Jr. (2002) – Lead Director

Chairman, WHS Holdings LLC

Winthrop H. Smith spent 27 years at Merrill Lynch, where he was most recently executive vice-president, Merrill Lynch & Co., and president, International Private Client Group and chairman, Merrill Lynch International, USA. Mr. Smith holds an undergraduate degree from Amherst College and an MBA from the Wharton School of Business, University of Pennsylvania. Mr. Smith is a majority partner in a resort operation and serves on a number of public and private boards.

The date next to each name indicates the year in which that person first became a director.

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

For the year ended November 30, 2006

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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 certain factors and assumptions, including expected growth, results of operations, business prospects, performance and opportunities. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about our operations, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and

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results could differ materially from those expressed or implied by forward-looking statements made by us due to, but not limited to, important factors such as level of assets under our management, volume of sales and redemption of our investment products, performance of our investment funds and of our investment managers and advisors, competitive fee levels for investment management products and administration and competitive dealer compensation levels, size and default experience on our loan portfolio and cost efficiency in our loan operations as well as interest and foreign exchange rates, taxation, changes in government regulations, unexpected judicial or regulatory proceedings, and our ability to complete strategic transactions and integrate acquisitions. We caution that the foregoing list is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. 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, 2006 compared with November 30, 2005, and the results of operations for the year ended November 30, 2006 compared with the corresponding period of 2005. A discussion of the results for the three months ended November 30, 2006 compared with the three months ended November 30, 2005 is also included under the section 'Fourth Quarter Analysis'. This discussion should be read in conjunction with our audited Consolidated Financial Statements and Notes for 2006.

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') is one of Canada's largest independent mutual fund and investment management companies with operations and investments in Canada, England, Ireland and Asia. AGF finished the fiscal year with approximately \$43 billion in assets under management ('AUM'), and including the acquisition of Highstreet Partners Limited ('Highstreet'), which closed on December 1, 2006, AGF's total AUM reached approximately \$48 billion. AGF commenced operations in 1957 with one of the first mutual funds available to Canadians wishing to invest internationally and as at November 30, 2006 offered over 50 mutual funds to investment advisors and their clients. We also offer investment management services to high-net-worth and institutional clients.

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, Trust Company Operations and Other.

The principal subsidiaries and associated companies included within each of our reportable segments, which are collectively referenced to as the AGF Group of Companies ('AGF') 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, AGFFI is one of the larger mutual fund organizations in Canada. We manage 49 mutual funds, AGF Harmony tailored investment program and the AGF Elements portfolios, totalling \$26.9 billion in AUM.

In addition, AGFFI and the operations listed below manage or advise international and domestic AUM through or under separate investment management mandates totalling almost \$21 billion including the Highstreet acquisition, which brings total AUM to approximately \$48 billion.

AGF Private Investment Management Ltd. ('AGF PIM') – AGF PIM provides investment counselling services for high-net-worth clients, estates, endowments, institutions and corporations. PIM has a national scope with offices in Vancouver, Calgary, London, Waterloo, Toronto, Ottawa and Montreal and has total AUM of \$11.3 billion, including the assets of Highstreet. On December 1, 2006, AGF closed the transaction to purchase 80% of Highstreet Partners Limited, which wholly owns Highstreet Asset Management Inc., an investment counsel firm based in London, Ontario, with \$4.8 billion in assets under management.

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

Trust Company Operations Segment

AGF Trust Company ('AGF Trust') – in operation since 1988, AGF Trust has \$2.8 billion in assets and offers a broad range of web-enabled products and services including GICs, term deposits, real estate secured loans and investment 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 ('S&WHL') – a leading, independent private client investment management, financial advisory and accounting group based in the U.K. with £7.8 billion of assets under management. We hold a 30.7% interest in this company as at November 30, 2006.

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

The following discussion provides details of our overall corporate business strategy and achievements in connection with these strategies in fiscal 2006 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 impact the achievement of our objectives and 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 provide the readers of this material with a management perspective of our operations.

Corporate Strategy

AGF Management Limited assists in the identification and facilitation of opportunities for our business segments and ensures that segment strategies are aligned with the overall corporate strategy of targeting sustainable profitability and value for our shareholders over the long term. In our 2005 MD&A, we indicated that our principal focus in fiscal 2006 was to enhance our client-centric approach and promote our international investment management capabilities in multiple channels; this continues to be the focus into 2007, which in turn will translate into improved financial results.

In 2006 we achieved the following:

- ▶ Our client-centric approach resulted in net sales improvement in our core mutual fund business. During fiscal year 2006, we recorded \$437 million in net sales, which is a strong improvement over the \$2.7 billion in net redemptions recorded in the prior year. Our momentum increased steadily during the year, and in the final two months of our fiscal year we had the highest long-term fund net sales of any non-bank firm in Canada. We were also third overall in the industry for the months of October and November.
- ▶ At the 2006 annual Canadian Investment Awards, we received the top prize for Advisors' Choice Favourite Investment Fund Company of the Year. We also won awards for five of our mutual funds, making AGF the winner of the highest number of awards.
- ▶ We addressed succession at the most senior level of management. On June 30, 2006, C. Warren Goldring, co-founder and chairman of the board stepped down and assumed the role of honorary chairman, and Blake Goldring, president and chief executive officer of AGF Management Limited, became chairman and CEO. We also appointed Randy Ambrosie to the role of president, AGF Funds Inc.

- ▶ On December 1, 2006 we completed an agreement to purchase 80% of Highstreet Partners Limited, which wholly owns Highstreet Asset Management Inc., an investment counsel firm based in London, Ontario, with \$4.8 billion in assets under management. Rob Badun, formerly chief executive officer of Highstreet, was appointed president, AGF Private Investment Management Limited and will be responsible for overseeing the strategic plan for growth for the PIM group of companies. The Highstreet acquisition expanded our presence in the growing high-net-worth market and broadened our capabilities in the institutional market. Highstreet's investment style is quantitative, which is a complement to our existing investment management expertise.
- ▶ We repurchased debt owed to Multi-Fund Income Trust ('Multi-Fund'), which is a financing vehicle that we used to fund selling commissions. The \$3.4 million payment to Multi-Fund resulted in a \$13.3 million non-cash gain net of tax and the removal from our balance sheet of \$24.0 million in debt.
- ▶ We 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 ('AGF Class B Shares') increased to \$61.5 million in 2006 as compared to \$50.5 million in fiscal 2005. This represented an increase of \$0.13 per share or 23.2% over the \$0.56 per share paid in 2005.
 - ii) We continued our share buy-back program. We repurchased 700,000 AGF Class B Shares during 2006 as compared to repurchases of 2,444,900 shares in fiscal 2005. Blackout restrictions and limited availability of large blocks of AGF Class B Shares limited repurchase activity in 2006.

Including dividends and share repurchases, we returned 65% of our free cash flow to shareholders. We define free cash flow as cash flow from operations before net change in non-cash balances related to operations less selling commissions paid.

- ▶ AGF Management Limited has supported the growth of AGF Trust by investing \$62.4 million in 2006, bringing our total investment of debt and equity capital to \$134.8 million. AGF Trust real estate secured loans have grown 91.3% over the prior year and investment loans have grown 48.4%. AGF Trust now has over \$2.8 billion in assets and is a meaningful contributor to the financial results of AGF. The estimated value of AGF Trust is well in excess of the capital invested in the business.

We remain committed to our corporate strategy, which targets sustainability, profitability and value for our shareholders in the years to come, and 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 ('KPIs'), 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.

Consolidated Operations

Revenue

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

We derive our revenue principally from a combination of:

- ▶ management and advisory fees based on AUM,
- ▶ administration fees earned on Harmony, institutional and private investment management AUM,
- ▶ deferred sales charges ('DSC') earned from investors when mutual fund securities sold on a DSC basis are redeemed, and
- ▶ 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 investment management businesses without the impact of amortization. EBITDA for the Trust Company Operations segment includes interest expense related to deposits. These deposits fund our investment loan and real estate secured loan programs and therefore are considered an operating cost directly related to generating interest revenue. We include this interest expense in Trust Company Operations EBITDA to provide a meaningful comparison to our other business segments and our competitors.

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

Cash Flow from Operations

We report cash flow from operations before net changes in non-cash balances related to operations. Cash flow from operations helps to assess the ability of the business to

generate cash, which is used to pay dividends, repurchase shares, pay down debt and fund other needs.

(\$ millions)		
Years ended November 30	2006	2005
Net cash provided by continuing operating activities	\$ 222.2	\$ 224.2
Less: net changes in non-cash balances from operations	2.3	7.0
Cash flow from continuing operations	\$ 219.9	\$ 217.2

Free Cash Flow from Operations

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

(\$ millions)		
Years ended November 30	2006	2005
Cash flow from continuing operations	\$ 219.9	\$ 217.2
Less: selling commissions paid	101.4	60.0
Free cash flow from operations	\$ 118.5	\$ 157.2

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

We monitor ROE 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.

Investment Management Operations

Assets Under Management ('AUM')

The amount of AUM is 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 will fluctuate in value as a result of investment performance, sales and redemptions.

Mutual fund 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 Investment 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 relative investment performance may result in redemptions; redemptions, in turn, reduce our AUM and revenues. Strong relative 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 comprises net sales, which together with investment performance, determines the level of average daily mutual fund AUM, the basis on which management fees are charged.

We monitor inflows and outflows in our AGF PIM and institutional business separately. Due to the reporting systems utilized in these businesses, we do not compute an average daily AUM figure for AGF PIM and institutional.

EBITDA Margin

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

(\$ millions) Years ended November 30	2006	2005
EBITDA	\$ 210.7	\$ 229.8
Divided by: revenue	537.0	509.6
EBITDA margin	39.2%	45.1%

Pre-tax Profit Margin

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

(\$ millions) Years ended November 30	2006	2005
Income before taxes and non-segmented items	\$ 80.0	\$ 95.1
Divided by: revenue	537.0	509.6
Pre-tax profit margin	14.9%	18.7%

Trust Company Operations

Loan Asset Growth

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

Net Interest Income

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

(\$ millions) Years ended November 30	2006	2005
Interest income	\$ 131.4	\$ 64.9
Less: interest expense	78.7	30.9
Net interest income	\$ 52.7	\$ 34.0

Efficiency Ratio

The efficiency ratio is a key lending industry performance indicator. We utilize this ratio to ensure that expenses are contained as AGF Trust grows. The ratio is calculated from AGF Trust results by dividing non-interest expenses by the total of net interest income and non-interest income.

(\$ millions) Years ended November 30	2006	2005
Selling, general and administrative expense	\$ 29.7	\$ 17.6
Add: amortization expense	1.1	1.0
Non-interest expense	30.8	18.6
Net interest income	52.7	34.0
Add: non-interest income	17.6	3.5
Divided by: total of net interest income and non-interest income	70.3	37.5
Efficiency ratio	43.8%	49.6%

Management's Discussion and Analysis

Pre-tax Profit Margin

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

(\$ millions) Years ended November 30	2006	2005
Income before taxes and non-segmented items	\$ 31.0	\$ 13.5
Divided by: net interest income	52.7	34.0
Pre-tax profit margin	58.8%	39.7%

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, which are included in the segment discussions that follow.

Company-specific Factors

Investment Management

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 client-centric strategy and maintain our net sales. If sales do not materialize as planned or key personnel cannot be retained, 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.

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.

AGF Trust

AGF Trust has experienced a substantial amount of growth in recent reporting periods. The success of this fast-growing business is dependent on systems and processes being adequate to process increasing volumes of business. Systems or process failures could result in financial losses or an inability to sustain high growth rates.

The Trust Operations lending depends on a network of independent advisors, mortgage brokers and referral institutions. If service levels were to decline or if the Trust Operations products no longer met the needs of clients, it might become difficult to attract new lending business.

Non-company Factors

Investment Management

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 market-place and actions taken by competitors.

We take all reasonable measures to ensure compliance with governing statutes, regulations or regulatory policies. 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.

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.

Our revenue is highly correlated to the value of AUM. As a result, we are exposed to general stock market fluctuations. A prolonged stock market decline would reduce revenue and therefore earnings in our Investment Management Operations segment.

AGF Trust

A general economic downturn and an increased unemployment rate could lead to reduced credit worthiness of the Trust segment borrowers. This could lead to increased default rates and an adverse impact on financial results. There is a risk that an increase in interest rates could slow the pace of housing sales and adversely affect growth in the residential mortgage market, which could adversely affect the ability to sustain present growth rates.

Pricing pressures in the real estate secured or investment loan markets could potentially result in net interest margin compression for our Trust Company Operations segment.

Net interest margin compression would adversely affect profitability.

Our Trust Company Operations segment is also exposed to stock market levels as collateral for secured investment loans consists of mutual fund assets, which are highly correlated to general stock market levels. In addition, the Trust Company Operations segment is exposed to the level of housing prices, as collateral for real estate secured loans consists of the borrower's home.

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 as currency fluctuation may influence the financial results of AGF. However, it is the discretion of the fund manager to decide whether to 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.

We are subject to foreign exchange risk related to our 30.7% interest in S&WHL, which is denominated in U.K. pounds. On our balance sheet, the investment is presented in Canadian dollars using the exchange rate prevailing on the balance sheet date.

Interest Rate Risk

Excluding the AGF Trust operations, we have limited exposure to the risk related to changes in interest rates on floating rate debt at November 30, 2006. Using average loan balances outstanding, the effect of a 1% change in variable interest rates on this debt in fiscal 2006 would have resulted in a change of approximately \$0.2 million in interest expense for the year ended November 30, 2006. 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 either up or down would be a change of annual net interest income of approximately \$0.2 million, as most of the loan portfolios is hedged.

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 (GAAP). 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 judgements.

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, which are expected to be in effect when the future income tax assets or liabilities are expected to be realized or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Deferred Selling Commissions ("DSC")

Selling commissions paid to brokers 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 comprised 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

Management's Discussion and Analysis

Finite-life Intangible Assets

Finite-life intangible assets, which are comprised of customer contracts and relationships and investment advisory contracts and computer software, are stated at cost, net of accumulated amortization. Amortization is computed on a straight-line basis based on the estimated useful lives of these assets:

Customer contracts and relationships	7 to 15 years
Investment advisory contracts	5 years
Computer software	3 to 5 years

Impairment of Long-lived Assets

Impairment of long-lived assets is recognized when an event or change in circumstance causes the assets' carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset or group of assets from its carrying value.

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 with 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, 2006 and 2005, the Company 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.

Real Estate Secured Loans and Investment Loans

Real estate secured loans and investment loans are carried at amortized cost less principal repayments less any holdbacks, net of an allowance for loan losses. Interest income from loans is recorded on an accrual basis. Accrued but uncollected interest on uninsured mortgage and investment loans is reversed when a loan is identified as impaired. Principal payments on real estate secured loans and investment loans that are contractually due to the Company in the 12-month period from the balance sheet date are classified as current assets.

Fees that relate to the origination of loans are deferred and recognized as selling expenses on a straight-line basis over the average expected term of the loans.

Allowance for Loan Losses

The allowance for loan losses consists of both specific allowances on impaired loans, and general allowances. General allowances are based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of specific allowances. The assessment includes portfolio-specific credit factors, general economic factors and geographic exposure.

Impaired Loans

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the collectibility, either in whole or in part, of principal or interest 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, an agency thereof or another third-party insurer is classified as impaired when interest or principal is past due 365 days, or in the case of other loans, when they are contractually in arrears for 180 days.

When a loan is identified as impaired, the carrying amount of the loan is reduced to its estimated realizable value. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the loan are credited to the provision for loan losses in the consolidated statements of income. Where a portion of the loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest. Interest income is recognized on impaired loans on a cash basis only after the specific allowance for losses has been reversed and provided there is no further doubt as to the collectibility of the principal.

Stock-based Compensation and Other Stock-based Payments

The Company has stock-based compensation plans as described in Note 16. The Company utilizes the fair value-based method of accounting for stock-based compensation. The fair value of stock-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 AGF Class B Shares. The Company matches a portion of these amounts. The Company's contribution vests immediately and is recorded as a charge to net income in the period in which the cash contribution is made.

During the year, the Company established a Restricted Share Unit ('RSU') plan for senior employees under which certain employees were granted RSUs of AGF Class B Shares. Compensation expense and the related liability are recorded equally over the vesting period, taking into account fluctuations in the market price of AGF Class B Shares, dividends paid and forfeitures.

Effective November 30, 2006, the Company established a Performance Share Unit ("PSU") plan for senior employees under which certain employees were granted PSUs of AGF Class B Shares. Compensation expense and the related liability are recorded equally over the vesting period, taking into account the likelihood of the performance criteria being met, fluctuations in the market price of AGF Class B Shares, dividends paid and forfeitures.

Accounting for Securitizations

The Company has securitized certain RSP loans through the sale of these loans to a securitization trust. In order for a securitization to be treated as a sale, the Company must surrender control over those loans included in the securitization. To surrender control, the securitized assets must be isolated from the Company and its creditors, even in the case of bankruptcy or receivership, and the Company must receive consideration other than the beneficial interest in the transferred assets.

In determining the gain or loss on a sale, management estimates future cash flows by relying on estimates of the amount of interest that will be collected on the securitized assets, the yield paid to investors, the portion of the securitized assets that will be prepaid before their scheduled maturity, expected credit losses, the cost of servicing the assets and the rate at which to discount these expected future cash flows. Actual cash flows may differ significantly from those estimated by management. If actual cash flows are different from management's estimate of future cash flows, then the gains or losses on the securitization recognized in income will be adjusted. Note 2 to the financial statements provides additional disclosure regarding the securitizations and related balance sheet and income statement impacts.

AGF Elements

In November 2005, the Company launched AGF Elements, which consists of five diversified fund-of-fund portfolios. If an AGF Elements portfolio does not match or outperform its customized benchmark over a three-year period, each individual investor will receive up to 90 basis points in additional units, calculated based on the value of such investment at the end of the three-year period.

The Company will include in other liabilities up to 30 basis points per year of each investor's assets under management, adjusted for redemptions, until the end of the three-year measurement period of each investment made by such investor. At that time, if an individual investor's returns match or exceed the corresponding benchmark, the Company will recognize the entire amount as management fee revenue. If an individual investor's actual returns are below the customized benchmark, a corresponding amount will be distributed to the investor in the form of additional units.

Future Accounting Changes

The CICA has issued three new accounting standards: CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement; Section 3865 Hedges; and Section 1530 Comprehensive Income. These standards will increase harmonization with U.S. and international accounting standards, and became effective for the Company on December 1, 2006.

These standards require that all financial assets be classified as available for sale, trading, held to maturity or loans and receivables. Financial liabilities will be classified as trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value, with subsequent measurement determined by the classification of each financial asset and liability.

Financial assets and financial liabilities held-for-trading will be measured at fair value with the changes in fair value reported in earnings. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost. Available-for-sale financial assets will be measured at fair value with changes in fair value reported in other comprehensive income ('OCI') until the financial asset is disposed of, or becomes impaired.

Derivative instruments must be recorded on the balance sheet at fair value. Changes in the fair values of derivative instruments will be recognized in earnings, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI.

Accumulated other comprehensive income ('AOCI') will be a new component of shareholders' equity and a new statement entitled 'Statement of Comprehensive Income' will be added to the Company's financial statements. Comprehensive income is composed of the Company's net income and other comprehensive income. Other comprehensive income will include unrealized gains and losses on available-for-sale financial assets, foreign currency translation and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes.

A transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as at December 1, 2006: (i) financial instruments that the Company classifies as held-for-trading and that were not previously recorded at fair value, and (ii) the difference in the carrying amount of loans or deposits at December 1, 2006 and the carrying amount calculated using the effective interest rate from inception of the loan or deposit. A transition adjustment will be recognized in the opening balance of AOCI relating to adjustments arising due to the remeasuring of financial assets classified as available-for-sale. Neither of the transition amounts that will be recorded in the opening retained earnings

Management's Discussion and Analysis

or in the AOCI balance on December 1, 2006 is expected to be material to the Company's consolidated financial position.

Disclosure Controls

Disclosure Controls and Procedures

Pursuant to Multilateral Instrument 52-109, the chief executive officer and chief financial officer must certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to ensure that material information with respect to AGF, including its consolidated subsidiaries, is made known to them and that they have evaluated the effectiveness of AGF's disclosure controls and procedures as of the end of the period covered by these annual filings. The Company's chief executive officer

and chief financial officer, after evaluating the effectiveness of the Company's disclosure controls and procedures, have found them to be effective.

Changes in Internal Controls over Financial Reporting

Also pursuant to Multilateral Instrument 52-109, the chief executive officer and chief financial officer must also certify that they are responsible for the design of internal controls over financial reporting (or caused them to be designed under their supervision). Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. During the year ended November 30, 2006, there were no significant changes to the systems of internal control within our company.

Consolidated Operating Results

The table below summarizes our Consolidated Operating Results for the years ended November 30, 2006 and 2005.

(\$ millions, except per share amounts)

Years ended November 30	2006	2005	% change
Revenue			
Investment management operations	\$ 537.0	\$ 509.6	5.4%
Trust company operations	149.0	68.4	117.8%
Other	19.7	17.5	12.6%
Intersegment eliminations	(2.2)	(1.1)	100.0%
	703.5	594.4	18.4%
Expenses			
Investment management operations	326.3	279.8	16.6%
Trust company operations ¹	116.8	53.9	116.7%
Other	11.6	17.0	(31.8%)
Intersegment eliminations	(2.2)	(1.1)	100.0%
	452.5	349.6	29.4%
EBITDA ² (continuing operations)	251.0	244.8	2.5%
Amortization	134.8	139.0	(3.0%)
Interest expense	2.9	4.1	(29.3%)
Income taxes	11.1	29.0	(61.7%)
Net income from continuing operations	\$ 102.2	\$ 72.7	40.6%
Gain on repayment of debt, net of taxes	13.3	0.0	n/m
(Loss) gain on sale of discontinued operations, net of tax	(2.8)	15.6	(117.9%)
Net earnings of discontinued operations, net of tax	0.0	3.5	n/m
Net income for the year	\$ 112.7	\$ 91.8	22.8%
Cash flow from continuing operations ³	219.9	217.2	1.2%
Earnings per share from continuing operations – diluted	\$ 1.14	\$ 0.80	42.5%
Return on equity	11.9%	10.0%	19.0%

¹ Includes interest expense related to deposits, the funds of which are used in our investment loan and real estate secured loan programs.

² 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.

³ Cash flow from operations before net change in non-cash balances related to operations.

Results from Continuing Operations

Consolidated revenues increased by 18.4% for the year ended November 30, 2006. Investment Management Operations revenue increased by 5.4% primarily on the strength of average daily mutual fund AUM increasing by 11.5%. In addition, there was significant growth in institutional and PIM AUM. These were partially offset by lower deferred sales charge revenues related to declining redemptions of mutual funds. Trust Company Operations revenues increased by 117.8% in fiscal 2006 over 2005 on the strength of increased real estate secured and investment loans. Other revenue, which includes revenue of Investmaster and our equity interest in Smith & Williamson Holdings Limited ("S&WHL"), was higher for the year ended 2006 as compared with 2005, due to strong performance at S&WHL.

Expenses increased by 29.4% in fiscal 2006 as compared to 2005. The expense increase was primarily in the Investment Management Operations and in the Trust Company Operations segments. Investment management expenses are higher due to increased compensation expenses, sales and marketing efforts, fund absorption related to the capping and soft capping of management expense ratios in our funds, and increased expenses in the AGF PIM business. The increase in the Trust Company Operations segment was due to higher volume of business and increases in interest costs on deposits held to fund real estate secured and investment loans. The declining expenses in the Other segment relates solely to Investmaster's operations, which have been significantly restructured to reduce costs.

The revenue and expense impact contributed to EBITDA increasing by 2.5% for the year ended November 30, 2006 over the respective 2005 period. The EBITDA recorded in 2006 is a result of reduced EBITDA in the Investment Management Operations segment, offset by strong performance in our Trust Company Operations segment. The three months ended November 30, 2006 marked a strong quarter for mutual fund sales and continued growth in the Institutional and Private Investment Management AUM. To this end, we continue to invest in and support initiatives that will facilitate future growth in the Investment Management Operations segment.

Amortization expense for the year ended November 30, 2006 decreased by 3.0% compared to the corresponding period in 2005. Amortization of deferred selling commissions in the Investment Management Operations segment accounted for \$108.2 million of the total amortization expense and was the driver in the year-over-year decrease.

Interest expense decreased to \$2.9 million for the year ended November 30, 2006 from \$4.1 million in the same period in 2005. The decrease is primarily a result of lower average outstanding bank loan balances in 2006 as compared to 2005.

Income tax expense for the year ended November 30, 2006 was \$11.1 million as compared to \$29.0 million in 2005. The decrease is primarily due to a \$15.9 million reduction of future income tax liabilities recorded in the third quarter, which related to the Canadian federal corporate income tax rate reduction that was substantially enacted in June 2006.

The impact of the above revenue and expense items resulted in net income from continuing operations of \$102.2 million in 2006 as compared with \$72.7 million in the prior year. Basic earnings per share from continuing operations were \$1.15 per share in 2006 as compared to \$0.81 per share in 2005. Diluted earnings per share from continuing operations were \$1.14 per share in 2006 as compared to \$0.80 per share in 2005.

Net Earnings

Net income for the year ended November 30, 2006 was \$112.7 million as compared with \$91.8 million in 2005.

The 12-month period ended November 30, 2006 included a \$13.3 million non-cash gain on repayment of debt. During the second quarter of 2006, we reached an agreement with Multi-Fund to terminate our obligation for a cash payment of \$3.4 million. The gain resulted because the liability recorded on our balance sheet was higher than the cash buy-out price. The 12 months ended November 30, 2006 also included a \$2.8 million loss net of tax related to subsequent adjustments to the final purchase price on the sale of Unisen. In 2005, the Company recorded a \$15.6 million gain net of tax related to the disposition of Unisen and recorded \$3.5 million in earnings from Unisen as discontinued operations.

For a more detailed discussion of revenue and expense items, please refer to the individual operating segment discussions. An analysis of the 2006 fourth-quarter results compared to the corresponding period in 2005 is included under the heading 'Fourth Quarter Analysis'.

Return on Equity

Return on equity increased by 19.0% for the year ended November 30, 2006 over 2005 on the strength of increased income from continuing operations.

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. Demand for investment products will remain strong due to factors such as Canada's projected population growth and its significant amount of unused registered Retirement Savings Plan contribution room. Mutual funds remain a very accessible and attractive investment solution for these retirement accounts. Despite the announcement by the federal government of their intention to tax income trusts, we believe the demand for income/yield-producing products will continue. An aging and increasingly wealthy Canadian population will underpin

demand for AGF PIM services. We also see growth opportunities in the institutional investment management space both domestically and abroad.

AGF's strategy of focusing on client-centric activities has recently resulted in higher gross sales and declining redemptions resulting in strong net sales. A reduction in redemptions increases the value of our franchise in the long term, but in the short term, reduced redemptions can affect EBITDA as DSC revenue is reduced. The recent strength in net sales is positive for long-term value creation, but typically the net financial contribution from mutual funds in the year of sale is minimal. Investment performance may have a more significant impact on our financial performance in 2007.

Business-specific outlooks are included in the segment discussions.

Business Segment Performance

We report on three business segments: Investment Management Operations, Trust Company Operations and Other. The Investment Management Operations segment provides investment management and advisory services and is responsible for the management and distribution of AGF investment products and services, including retail mutual fund operations and high-net-worth client investment counseling services. The Trust Company Operations segment offers a wide range of trust services and products including GICs, real estate secured loans and investment loans. The 'Other' segment includes the results of S&WHL, which is accounted for by the equity method, the results of our wholly-owned subsidiary Investmaster and the interest expense on our current 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, brokers, banks, life insurance companies and consultants.

Income-oriented products continue to experience strong inflows. On October 31, 2006 the federal government announced that it would tax income trusts beginning in 2011. However, this policy announcement will not influence secular factors associated with an aging population, which should bolster the demand for dividend and income products going forward. AGF is well-positioned to benefit from this continued trend with income-generating funds such as AGF Monthly High Income and AGF Diversified Dividend Income, and AGF Dividend Income Fund, which continues to be a strong seller.

An emerging trend in the Canadian mutual fund industry is a rise in the popularity of international funds. International funds were in severe net redemptions last year, but in recent months they have experienced strong net sales. If factors that have influenced this trend stay intact, we expect that sales of international funds will comprise a large portion of our mutual fund net sales in 2007.

AGF is an aggressive player within the highly competitive Canadian investment management business. We compete with numerous domestic as well as foreign players serving the market. We believe that although the Canadian mutual fund business is reaching the early stages of maturity, there are many opportunities for growth. We believe our status as an independent fund manufacturer with no distribution channel conflict will benefit us as the industry continues to evolve.

AGF is also building a reputation internationally as an institutional investment management boutique. Our success in this area has contributed to growth in institutional AUM of 49% during the 12 months ended November 30, 2006. We believe that further developing our reputation and relationships with international institutions will be a future growth opportunity.

Investment Management Operations Segment Strategy

In 2005, we stated that our primary focus was to continue to enhance the client-centric model in our investment management business. In order to achieve this, we maintained a high level of contact with our clients and refined the way we deal with advisors. We implemented a client engagement strategy that defines the way we interact with our clients and allows us to deliver services in a predictable manner. We implemented an advisor contact evaluation program, a method of reaching out to advisors to determine whether we are having a positive impact. We also utilized our activity management program and our customer relationship management system to ensure we were making the right number of contacts and engaging in the most effective activities. During 2006, this consistent effort resulted in the following:

- Our net sales improved greatly. During the final quarter of fiscal 2006, we recorded \$424 million in net sales, which is a strong improvement over the \$329 million in net redemptions recorded in the prior-year period. Our momentum increased steadily during the year and we finished the year by having the highest net sales of any non-bank firm in Canada in October and November.
- At the 2006 annual Canadian Investment Awards, we received the top prize for Advisors' Choice Favourite Investment Fund Company of the Year. We also won awards for five of our mutual funds, making AGF the winner of the highest number of awards.

- ▶ We successfully marketed products that were introduced in 2005. For example, AGF Dividend Income Fund, formerly ING Dividend Income Fund was introduced in the popular dividend category. This Fund purchases the best Canadian dividend-paying companies and has achieved superior performance by using yield-enhancing strategies. AGF Dividend Income Fund started the year with \$273.4 million in AUM and by year-end reached \$827.6 million. In November 2005, we launched AGF Elements, a fund of AGF funds, which brings state-of-the-art portfolio construction and monitoring, along with a unique commitment to return up to 90 basis points in new units if the portfolios' average annualized rate of return does not perform at or above the customized benchmark over a three-year period. This product became one of the most successful products in our history and reached \$1 billion in assets by November 30, 2006.

The strategic priorities for our investment management operations for 2007 are to:

- ▶ focus on predictable excellence in three core activities: investment management, relationship management and product management;
- ▶ promote international investment management competency across multiple channels;
- ▶ pursue strategic acquisitions to supplement organic growth.

Focus on Three Core Activities

We are focused on building predictable excellence in three core areas: investment management, relationship management and product management.

Investment Management

We believe that our strong long-term investment performance record will be maintained by having the right people in place, with the right tools and a heavy focus on research. In 2006, our investment management operation implemented a new trade order management system, which resulted in enhanced operational effectiveness and created greater back office independence and business flexibility.

Our investment performance is bolstered by our presence in international markets. In addition to investment professionals in various locations across Canada, we maintain investment management offices in Dublin and Singapore.

Relationship Management

We have chosen to utilize independent channels of distribution. We believe that supporting independent advice is an attractive distribution model. We were recognized for our ability to execute on this strategy at the 2006 annual Canadian Investment Awards, where, as noted above, we received the top prize for Advisors' Choice Favourite Investment Fund Company of the Year.

We are committed to our effective 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.

Product Management

Our client-centric approach includes listening to advisors and developing and marketing products in a way that meets advisors' needs. This approach was recognized at the 2006 Canadian Investment Awards where AGF was given Honourable Mention in the category of Canadian Investment Marketing Awards for its marketing of Elements. Launched in November 2005, Elements is an example of a product perfectly tailored to the needs of advisors. Elements has achieved more than \$1 billion in assets in only one year, making it one of the most successful product launches in AGF's history.

Promote International Investment Management Competency

AGF has a strong product lineup and a diverse range of investment alternatives. We have a particular strength in the area of international investment management. We have had success marketing our international money management expertise to international institutional clients. Our success in this area has contributed to growth in institutional AUM of 49% during the 12 months ended November 30, 2006. The elimination of the foreign content restrictions on registered retirement accounts and the cooling of the rise in the Canadian dollar have already sparked a resurgence by Canadian retail investors embracing international investing. Our product lineup includes some star performers. The following international funds won awards at the 2006 Canadian Investment Awards:

- ▶ AGF International Stock Class, managed by John Arnold and Rory Flynn of AGF International Advisors Company Limited ('AGFIA'), won the International Equity Fund Award.
- ▶ AGF Global Financial Services Class, managed by Rory Flynn of AGFIA, won the Financial Services Equity Fund Award.
- ▶ AGF Emerging Markets Fund, managed by Patricia Perez-Coutts, won the Emerging Markets Equity Fund Award.
- ▶ AGF European Equity Class, managed by John Arnold and Rory Flynn, won the European Equity Fund Award.

Pursue Strategic Acquisitions to Supplement Organic Growth

Our organic growth will be supplemented by acquisitions in the investment management segment. We have a disciplined acquisition approach. AGF targets long-term after-tax return on investment in excess of 15% per annum. We look for acquisitions that have a financial as well as a strategic rationale, such as our transactions with ING Investment Management Inc. and Highstreet Partners Limited.

Management's Discussion and Analysis

AGF Private Investment Management

On December 1, 2006, AGF acquired 80% of Highstreet Partners Limited, which wholly owns Highstreet Asset Management Inc., an investment counsel firm based in London, Ontario with \$4.8 billion in assets under management. Highstreet joined AGF PIM, and Highstreet's chief executive officer, Rob Badun, became president of AGF Private Investment Management Limited. Rob Badun is now working with the AGF PIM firms to maximize growth synergies with other members of the AGF group of companies. Part of the strategy will include ensuring AGF takes advantage of Highstreet's proprietary

quantitative investment process that has proven to consistently outperform. The strategy will also leverage the unique offerings of AGF PIM's other three platforms: Magna Vista Investment Management in Montreal, P.J. Doherty & Associates in Ottawa and Cypress Capital Management in Vancouver and Calgary. The strategic plan is in progress and is expected to include items such as:

- › realizing synergies with other AGF Companies;
- › pursuing strategic acquisitions;
- › delivering consistent investment performance.

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, 2006 and 2005:

(\$ millions) Years ended November 30	2006	2005	% change
Mutual fund AUM, beginning of period	\$ 22,209	\$ 22,747	(2.4%)
Gross sales of mutual funds	4,686	3,005	55.9%
Redemptions of mutual funds	(4,249)	(5,749)	(26.1%)
Net mutual fund sales (redemptions)	437	(2,744)	(115.9%)
Market appreciation of fund portfolios	4,211	2,206	90.9%
Mutual fund AUM, end of period	\$ 26,857	\$ 22,209	20.9%
Institutional AUM	9,425	6,332	48.8%
AGF PIM AUM	6,489	5,589	16.1%
Total AUM	\$ 42,771	\$ 34,130	25.3%
Average daily mutual fund AUM for the period	\$ 24,129	\$ 21,639	11.5%

Total AUM increased by 25.3% on the strength of market appreciation and growth related to institutional and private investment management AUM. The mutual fund AUM figure was up significantly on a year-over-year basis as a result of strong investment performance and positive net sales. The average daily mutual fund AUM figure was up 11.5% as compared to 2005.

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 recorded net sales of \$437 million during fiscal 2006, a significant improvement from the \$2.7 billion of net redemptions in 2005. Long-term funds

sales improved from net redemptions of \$70 million in November 2005 to net sales of \$226 million in November 2006. In December 2006, the positive trend continued, as we reported \$182.9 million in long-term fund net sales.

Investment Performance

Stock market performance influences the level of AUM. During the year ended November 30, 2006, the Canadian-dollar-adjusted S&P 500 Index rose 11.7%, the Canadian-dollar-adjusted NASDAQ Index rose 6.5% and the S&P/TSX Composite Index rose 20.6%. The total market appreciation of our mutual fund assets net of fees for the year ended November 30, 2006 divided by the average daily mutual fund AUM for the year equals 17.5%.

The impact of the U.S. dollar decline relative to the Canadian dollar on the market value of AGF mutual funds since November 30, 2005 has been a reduction in AUM of approximately \$0.1 billion.

Consistent with the rise in the stock market, market appreciation net of management fees increased mutual fund AUM by \$4.2 billion since November 30, 2005. For the five-year period ended November 30, 2006, 60% of ranked AUM performed above median. Over the 10-year period ended November 30, 2006, 64% of ranked AUM performed above median.

Strong markets combined with solid performance by our fund managers and with net sales have served to increase the overall mutual fund AUM level as at November 30, 2006 compared to November 30, 2005.

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

Percentage of total mutual fund AUM at November 30	2006	2005
Domestic equity funds	37.9%	35.6%
U.S. and international equity funds	39.0%	39.6%
Domestic balanced funds	9.4%	11.1%
U.S. and international balanced funds	2.3%	2.2%
Domestic fixed income funds	9.5%	9.3%
International fixed income funds	1.9%	2.2%
	100%	100%

The change in composition of mutual fund AUM in 2006 was due to strong relative performance of the S&P/TSX Composite Index.

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.

Financial and Operational Results

The table below highlights the Investment Management Operations segment results for the years ended November 30, 2006 and 2005.

(\$ millions) Years ended November 30	2006	2005	% change
Revenue			
Net management and advisory fees	\$ 430.9	\$ 404.4	6.6%
Administration fees and other revenue	78.0	63.4	23.0%
Deferred sales charges	25.5	37.3	(31.6%)
Investment income	2.6	4.5	(42.2%)
	537.0	509.6	5.4%
Expenses			
Selling, general and administrative	173.4	142.7	21.5%
Trailing commissions	125.3	110.3	13.6%
Investment advisory fees	27.6	26.8	3.0%
	326.3	279.8	16.6%
EBITDA ¹	210.7	229.8	(8.3%)
Amortization	130.7	134.7	(3.0%)
Income before taxes and non-segmented items	\$ 80.0	\$ 95.1	(15.9%)

¹ As previously defined, see the 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section.

Revenue

Revenue for the Investment Management Operations segment increased by 5.4% over the previous year, with changes in the categories being:

Net Management and Advisory Fees

The increase in average daily mutual fund AUM in fiscal 2006 of 11.5% directly contributed to a 6.6% increase in net management and advisory fee revenue from the same period a year ago. Average mutual fund AUM includes Harmony, our fast-growing tailored investment product. However, Harmony revenues are recorded in the administration fees and other revenue line, which is

Management's Discussion and Analysis

discussed below. Harmony made up 71% of the average daily AUM in the 12 months ended November 30, 2006. Excluding the Harmony AUM, the period-over-period percentage change in net management and advisory fees is comparable to the remaining average daily mutual fund AUM increase.

Management and advisory fee revenue in fiscal 2006 is reported net of distribution fees paid to limited partnerships and other third-party financing entities of \$10.3 million (2005 – \$12.9 million).

Administration Fees and Other Revenue

Administration fees and other revenue, which includes fees earned on Harmony, institutional and PIM AUM increased by 23.0% in the year ended November 30, 2006 as compared to the same period in the prior year. There was strong growth in Harmony AUM as well as organic growth in institutional and PIM AUM.

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. DSC revenues declined by 31.6% in 2006 as compared to 2005 as the redemption rate on DSC securities declined.

Expenses

Expenses for the Investment Management Operations segment increased 16.6% versus the previous year. Changes in specific categories are described in the discussion that follows.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses increased by 21.5% in 2006 compared to 2005. The increase is made up of the following amounts:

(\$ millions)	2006
Years ended November 30	
Increase in fund absorption accrual	\$ 5.7
Increase in stock option expense	1.4
Increase in compensation-related expenses	15.6
IT costs related to transition	
of services from CitiFinancial	1.0
Additional facilities and other staff-related costs	2.7
System enhancements	
for sales and marketing initiatives	4.1

The increase in fund absorption accrual is a result of soft caps on management fees as well as the management expense ratio cap on all of our funds to the lower of the amount incurred in 2004 and 2005, which we announced with the sale of Unisen in October 2005. Compensation expense increased primarily as a result of variable performance compensation tied to our sales results and investment performance. Both our sales and investment performance were strong in 2006 and have resulted in increased year-over-year payouts. Additional facilities and other staff-related costs were related to increased staffing levels and the repatriation of our Information Technology Services Group from Unisen. Systems enhancements with respect to sales and marketing initiatives have been designed to make AGF easier to do business with and more responsive to clients' needs.

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 0.520% for the 12 months ended November 30, 2006 from 0.510% in the comparable 2005 period, due to an increased proportion of mutual fund AUM sold on a front-end basis.

Investment Advisory Fees

External investment advisory fees increased by 3.0% as the average AUM managed by external sub-advisors increased by a like amount.

EBITDA

EBITDA for the Investment Management Operations segment were \$210.7 million for the year ended November 30, 2006, a decrease of 8.3% from \$229.8 million for the same period of fiscal 2005.

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 \$108.2 million in 2006 as compared to \$112.6 million in 2005. The year-over-year decrease 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 2006, we paid \$101.4 million in selling commissions, compared to \$60.0 million in 2005. As at November 30, 2005, the unamortized balance of deferred selling commissions financed stood at \$268.2 million, a decrease of \$6.8 million from the prior-year balance of \$275.0 million. The contingent deferred sales charges that would be received if all of the DSC securities were redeemed at November 30, 2006 were estimated to be approximately \$357.4 million (2005 – \$370.5 million).

Segment Outlook

We have experienced a steady reduction in the amount of redemptions and an increase in gross sales over the course of fiscal 2006. As a result, we have consistently reported positive net sales in recent months. We expect that this trend will continue and that net sales in our mutual fund business will have a significant impact on AUM in fiscal 2007. Stock market levels, which cannot be precisely predicted, can also be a major influence on the value of our AUM.

Declining redemptions could cause DSC revenue to decline, which could serve to reduce EBITDA in the Investment Management Operations segment. However, DSC is influenced not only by the level of redemptions, but also the age of the assets being redeemed and the proportion of redemptions composed of back-end assets.

On September 6, 2006, AGF International Advisors Company Limited (AGFIA) assumed the role of Portfolio Advisor to AGF International Value Fund and AGF International Value Class. AGF International Value Fund is our largest fund, with \$3.3 billion in assets. The move will result in a significant decrease in the sub-advisory fees paid in 2007, when compared to 2006.

Trust Company Operations

Business and Industry Profile

Through AGF Trust we offer financial solutions including GICs, real estate secured and investment loans, and Home Equity Lines of Credit ('HELOC').

AGF Trust investment loans consist of secured investment loans and RSP loans distributed through financial advisors. The market for these products is healthy and growing due to the efforts of financial advisors who continue to broaden their suite of products as they service the needs of their customers. AGF Trust has a competitive edge in the advisor channel as we leverage AGF's mutual fund wholesaler relationships. AGF mutual fund wholesalers have operated successfully in the advisor channel for 49 years.

We offer real estate secured loans to Canadians who have sound credit but in some cases have not met the requirements of Canada's large banks to qualify for their lowest rate real

estate secured loan products. This alternative real estate secured loan space is underdeveloped and fragmented, which makes it a very attractive market. In addition to the strong secular demand created by an underserved market, demand has recently been underpinned by low interest rates and a healthy housing market. Real estate secured loan products are distributed primarily through mortgage brokers. The mortgage broker channel has also experienced strong growth. Borrowers have chosen to deal with mortgage brokers to take advantage of independent advice and competitive rates, while lenders have provided real estate secured loans in this channel to reduce distribution costs.

Trust Company Operations Segment Strategy

AGF Trust is aligned very closely with the strategy of the investment management business. The AGF Trust sales team works collaboratively with AGF's mutual fund wholesalers and offers a compelling suite of products to advisors, including secured investment loans and RSP loans. The real estate secured loan business also holds promise in adding value to the advisor relationship. As advisors seek to manage both sides of their clients' balance sheets, AGF Trust's lending capabilities will be in increasing demand by advisors. We also know that as Canadians approach retirement, many will find that their home is their largest retirement asset. Knowing this, we may be able to assist advisors in future by leveraging our experience in the real estate secured loan business to help advisors' clients use their homes as a financial planning tool. We have already used our real estate secured loan business to help advisors' clients in this manner. We successfully operated a pilot project in the advisor channel in 2006. The project introduced a HELOC, and it proved to add value to the mutual fund advisor relationship and to our partners' businesses.

We will continue to strive to earn a high financial return as well as maximize synergies with the investment management segment by using the following strategies:

- ▶ leverage wholesaler relationships and market intelligence to penetrate the advisor channel;
- ▶ provide superior client service and delivery to mortgage broker channel;
- ▶ introduce new products that directly serve client needs;
- ▶ utilize disciplined loan underwriting standards and cost control.

In fiscal 2006, we expanded our dedicated sales staff and broadened our geographical coverage within Canada to promote investment and real estate secured loan products and as a result, the loan portfolio increased significantly in 2006. AGF Trust also continued to 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.

Management's Discussion and Analysis

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 mutual fund and real estate secured loan portfolios.

Securitization Transaction

On February 28, 2006, AGF Trust Company securitized \$218.4 million of RSP loans through the sale of these loans to a securitization trust. As at November 30, 2006, the balance of securitized loans outstanding was equal to \$161.3 million.

When RSP loan receivables are securitized, the transaction is recognized as a sale. Based on assumptions such as prepayments and expected credit losses, a gain or loss on sale of the loan receivables is recognized immediately in income. The related loan assets are removed from the consolidated balance sheet. As part of the securitization, certain financial assets are retained and a servicing liability is incurred. Each quarter, an amount is included in the financial results of AGF Trust Company, which relates to the amortization of retained interest and servicing liability as well as any change in assumptions.

Financial and Operational Results

The table below highlights our operating segment results for the years ended November 30, 2006 and 2005:

(\$ millions) Years ended November 30	2006	2005	% change
Interest, administration fees and other revenue	\$ 136.9	\$ 68.4	100.1%
Securitization gain and related items	12.1	0.0	n/m
	149.0	68.4	117.8%
Expenses			
Selling, general and administrative	29.7	17.6	68.8%
Interest on deposits	78.7	30.9	154.7%
Provision for loan losses	8.5	5.4	57.4%
	116.9	53.9	116.9%
EBITDA ¹	32.1	14.5	121.4%
Amortization	1.1	1.0	10.0%
Income before taxes and non-segmented items	\$ 31.0	\$ 13.5	129.6%
Interest, administration fees and other revenue	136.9	68.4	100.1%
Less: administration fees and other revenue	5.5	3.5	57.1%
Total interest income	131.4	64.9	102.5%
Total interest expense	78.7	30.9	154.7%
Net interest income	52.7	34.0	55.0%

¹ As previously defined, see the 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section.

Revenue and Net Interest Margin

The average net interest margin was 2.57% in 2006, as the average interest rate on loans was 6.54% and the average interest rate on deposits was 3.97% after the impact of swaps. The average net interest margin was 2.95% in 2005, as the average interest rate on loans was 5.84%, and the average interest rate on deposits was 2.89% after the impact of swaps. This spread decrease resulted from a change in the mix of RSP loans (as a higher percentage of RSP loans were shorter term, lower rate contribution loans in 2006 compared to 2005), a slight decrease in spreads on the investment loan portfolio, and a change in the business mix to include a higher proportion of real estate secured loans, which on average earn lower spreads than AGF Trust's other lending products. The 91.3% year-over-year increase in the real estate secured loan portfolio and a 48.4% year-over-year increase in the investment

loan portfolio, along with the introduction of the HELOC product in 2006, resulted in the overall increase in total revenue and net interest income.

Selling, General and Administration Expenses

SG&A increased by 68.8% in fiscal 2006 as compared to 2005 principally as a result of higher staffing levels. New staff supported balance sheet growth, assisted with new product introductions and ensured the maintenance of high service levels. In addition, expenses increased due to increased variable compensation to salespeople and external brokers related to the high origination levels in 2006.

Provision for Loan Losses

The provision for loan losses increased by 57.4% in the year as compared to 2005, with the increase attributable to the increase in our loan portfolios.

EBITDA

The strong real estate secured and investment loan growth and the RSP loan securitization resulted in EBITDA increasing by 121.4% in 2006, as compared to 2005.

Operational Performance

The table below highlights our key operational measures for the segment for the years ended November 30, 2006 and 2005:

(\$ millions) Years ended November 30	2006	2005	% change
Real estate secured loans			
Insured mortgage loans	\$ 403.4	\$ 309.9	30.2%
Conventional mortgage loans	533.4	240.5	121.8%
HELOC	116.2	0.0	n/m
	1,053.0	550.4	91.3%
Investment loans			
Secured investment loans	892.5	484.3	84.3%
RSP loans	346.3	349.9	(1.0%)
Other loans	14.9	10.6	40.6%
	1,253.7	844.8	48.4%
Other assets	453.4	150.7	200.9%
Total assets	\$ 2,760.1	\$ 1,545.9	78.5%
Net interest income ¹	\$ 52.7	\$ 34.0	55.0%
Gain from securitization and related items	12.1	0.0	n/m
Other income	5.5	3.5	57.1%
Non-interest expenses	30.8	18.6	65.6%
Provision for loan losses	8.5	5.4	57.4%
Income before taxes and non-segmented items	\$ 31.0	\$ 13.5	129.6%
Efficiency ratio ²	43.8%	49.6%	
Assets-to-capital multiple	15.8	14.4	

1 Net interest income above is reported net of agent commissions.

2 The efficiency ratio is calculated by dividing non-interest expenses by the total of net interest income and fee income. The 2005 amount has been modified to incorporate broker commissions in non-interest expenses, consistent with 2006.

Loan Asset Growth

Loan assets experienced substantial growth during fiscal 2006. Real estate secured loan assets grew 91.3%, as sales efforts in the mortgage broker channel continued to be successful. 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 and improved tie-ins with AGF mutual fund wholesalers also contributed to overall growth in loan advances, as investment loans increased by 48.4% in 2006. RSP loan balances were lower by \$161.3 million as at November 30, 2006 as a result of the securitization transaction.

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 that expenses are contained as the Trust business grows. The efficiency ratio improved to 43.8% in 2006 from 49.6% in 2005, largely as a result of the impact of the gain on sale from securitization.

Balance Sheet

Our balance sheet has grown significantly during the past year, with our financial position remaining solid. Total assets increased 78.5% to \$2.8 billion at November 30, 2006 as compared to the previous year-end. At November 30, 2006, our asset-to-capital multiple stood at 15.8 times compared to 14.4 times at the same time last year, which is below our authorized multiple of 17.5 times. Our risk-based capital ratio was 10.5% at November 30, 2006. AGF Trust received \$62.4 million in debt and equity capital from AGF Management Ltd. during the year, in order to support increased asset levels. Liquid assets were high, with \$388.8 million in cash and short-term investments at November 30, 2006, ensuring that we can easily meet the loan funding requirements during the 2007 RSP season.

Loan Portfolio Credit

Portfolio credit quality remains consistent as at November 30, 2006 compared to the prior year. The general allowance for conventional mortgage loan losses was increased during the year to \$4.9 million from \$2.4 million a year ago. The general allowance for investment loan losses was increased to \$2.2 million from \$1.2 million a year ago. Due to the reduction in balance sheet RSP loans from the securitization, the general allowance for RSP loans was decreased to \$2.8 million from \$3.1 million a year ago. Some 43% of real estate secured 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. For RSP loans, the expense for impaired loans, which consists of the increase in specific allowances plus write-offs (excluding securitized RSP loans) was \$2.7 million in fiscal 2006 (2005 – \$2.3 million). For the balance of our loan products, the expense for impaired loans was less than \$0.5 million (2005 – less than \$0.1 million).

Segment Outlook

We anticipate that execution of AGF Trust's stated strategy will result in the level of growth achieved in 2006 being sustained in 2007. A rise in interest rates or a softening of housing prices would negatively affect real estate secured loan growth, but even if these factors materialize, we believe the alternative real estate secured loan market would still sustain a high level of growth. Stock market levels influence investment loans. However, the 2007 RSP season has started strongly for AGF Trust Company, with lending volumes above last year's pace.

AGF Trust can accommodate this level of expansion due to scalable technology platforms and disciplined underwriting and risk analysis. 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

Free cash flow from operations generated from continuing operating activities (before net change in non-cash balances related to operations) was \$219.9 million for the year ended November 30, 2006, compared to \$217.2 million in the prior year.

Our free cash flow (defined as cash flow from continuing operations less selling commissions paid) was \$118.5 million for the year ended November 30, 2006, compared to \$157.2 million in the prior year. In fiscal 2006, we paid \$101.4 million in selling commissions, which were capitalized and amortized

for accounting purposes, compared with \$60.0 million in 2005. Free cash flow from operations and our bank facility were used primarily to fund the following:

(\$ millions) Years ended November 30	2006	2005
Payment of dividends	\$ 61.5	\$ 50.5
Repurchase of AGF Class B Non-Voting Shares for cancellation	15.9	42.5
Acquisitions	3.2	14.5
Purchase of property, equipment and other intangible assets	14.0	8.7
Debt repayment	4.7	80.0
Investment in Trust Operations (eliminated on consolidation)	62.4	42.0
	\$ 161.7	\$ 238.2

Consolidated cash and cash equivalents increased by \$245.9 million from November 30, 2005. The increase is primarily due to an increase in cash in the Trust Company Operations segment. The investment in Trust Company Operations is eliminated on consolidation; however, it represents a transfer of cash from our cash and cash equivalents balance shown as supplemental information on the Consolidated Statements of Cash Flow to the Trust Company Operations' cash and cash equivalents balance. In periods in which the Company has a free cash flow deficiency, these amounts will be financed by increasing our bank indebtedness.

During fiscal 2006, we used \$15.9 million of free cash flow to repurchase 700,000 AGF Class B Shares at an average price of \$22.67 per share.

We have a six-year prime-rate-based revolving term loan facility to a maximum of \$200.0 million, of which \$144.0 million was available to be drawn as of November 30, 2006. To date, we have utilized short-term borrowings under our credit facility. With the trend in gross sales improving and the Trust Company Operations segment requiring substantial investments, we will look to finance any free cash flow deficiency with longer-term bankers' acceptances and categorize any amount with repayment terms in excess of 12 months as long term. 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.

Limited Partnership Financing

Selling commissions paid on certain sales of mutual fund securities of the AGF Funds made on a DSC basis ('DSC securities') have been financed by limited partnerships held by third-party investors. Up to November 30, 2006, 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 2006 was \$0.6 million (2005 – \$0.7 million). As at November 30, 2006, the net asset value of DSC securities financed by the limited partnerships was \$1.6 billion (2005 – \$1.7 billion). It is the Company's intention to recommend the dissolution of certain of these partnerships. Refer to note 25 of the Consolidated Financial Statements.

Contractual Obligations

The table below is a summary of our contractual obligations at November 30, 2006. See also Notes 10 & 24 of the Consolidated Financial Statements.

(\$ millions)	Total	2007	2008-2009	2010-2011	Thereafter
Long-term debt	\$ 56.0	\$ 56.0	\$ –	\$ –	\$ –
Operating leases	24.7	5.4	4.8	4.2	10.3
Purchase obligations	5.6	2.1	2.3	1.2	–
Total contractual obligations	\$ 86.3	\$ 63.5	\$ 7.1	\$ 5.4	\$ 10.3

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 has been financed by limited partnerships held by third-party investors. As at November 30, 2006, the net asset value of DSC securities financed by the limited partnerships was \$1.7 billion and amounts paid to these partnerships in 2006 were \$10.3 million.
- ▶ We pay trailing commissions to investment advisors based on AUM of their respective clients. This obligation varies based on fund performance, sales and redemptions, and in 2006 we paid \$125.3 million in trailing commissions.
- ▶ In conjunction with the sale of Unisen, we capped the management expense ratio on all our funds until 2008 to the lower of the levels incurred in 2004 and 2005. This could result in increased absorption of fund expenses if the individual mutual funds do not show growth in AUM in 2007 and 2008 as compared to November 30, 2005 AUM. AGF also has issued a put option in favour of CitiFinancial relating to

certain Unisen assets. The put option expires 18 months after the date of acquisition. No value has been attributed to this option, as management does not believe it will be exercised. In addition, AGF is committed for a 10-year period from the date of sale to reimburse CitiFinancial should CitiFinancial's annual revenues derived from AGF fund administration services fall below a pre-determined level.

- ▶ In conjunction with the purchase of Cypress Capital Management Ltd., there is additional consideration due June 30, 2007 subject to Cypress achieving certain revenue levels. This amount is not determinable at the present time.
- ▶ In conjunction with the launch of the Elements portfolios, AGF has guaranteed investors that if a portfolio does not match or outperform its customized benchmark over a three-year average annualized period, investors will receive up to 90 basis points in new units.

Intercompany and Related Party Transactions

The Company has entered into certain transactions with entities or senior officers who are directors of the Company. During 2006, total amounts paid by the Company to these related parties aggregated \$0.1 million (2005 – \$0.1 million).

Subsequent Events

On December 1, 2006, the Company acquired approximately 80% of Highstreet Partners Limited, which wholly owns Highstreet Asset Management Inc., an investment counsel firm based in London, Ontario. The purchase price is based on actual results for the period ending December 31, 2006 and consideration will be paid over a three-year period. The purchase consideration is payable by a combination of cash and the issuance of AGF Class B Shares. On December 1, 2006, AGF made a payment of \$14.8 million in cash and \$4.4 million in shares.

In 2007, it is the Company's intention to recommend the dissolution of the following Limited Partnerships ('LPs'): AGF Limited Partnership 1990, AGF Limited Partnership 1991, 20/20 Group 1990 Private Limited Partnership, 20/20 Group 1990 Limited Partnership and 20/20 Group 1992 Limited Partnership. For all of these LPs, except for 20/20 Group 1990 Private Limited Partnership, the dissolution is subject to approval by the respective limited partners. As part of the LP dissolution process, the Company will either purchase the future distribution fees remaining payable by the Company to the LPs or the

The following table sets forth dividends paid by AGF on the AGF Class B Shares and the Class A Voting Common Shares for the periods indicated:

Years ended November 30	2006	2005	2004	2003	2002
Per share	\$ 0.690	\$ 0.560	\$ 0.410	\$ 0.295	\$ 0.255
Percentage increase	23%	37%	39%	16%	16%

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, 2006. For additional detail, see Notes 15 and 16 to the 2006 Consolidated Financial Statements.

	2006	2005
Shares		
Class A Voting Common Shares	57,600	57,600
Class B Non-Voting Shares	89,171,997	89,123,205
Stock options		
Outstanding options	4,269,083	4,781,875
Exercisable options	1,765,583	1,358,549

LP outstanding units for cash consideration of \$3.1 million. In 2006, distributions of \$1.0 million were made to these LPs.

Dividends

The holders of AGF Class B Shares are entitled to receive cash dividends. Dividends are paid in equal amounts per share on all the AGF Class B Shares and all the 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 AGF 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 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 Shares traded on the Toronto Stock Exchange during the 10 trading days immediately preceding the record date applicable to such dividend.

Government Regulations

AGF Management Limited

AGF Management Limited ('AGF') is incorporated under the laws of the Province of Ontario and is a reporting issuer in each province and territory of Canada. Accordingly, AGF is subject to applicable securities laws in each jurisdiction. In addition, the Class B Non-Voting Shares of AGF are listed for trading on the Toronto Stock Exchange under the trading symbol AGF.B.

Investment Management Operations

AGF Funds Inc.

AGF Funds Inc. ('AGFFI') is registered with the Ontario Securities Commission ('OSC') as an investment counsel and portfolio manager and maintains equivalent registrations in each of the other provinces and territories of Canada in which AGFFI carries on business. AGFFI is also registered as a mutual fund dealer, limited market dealer and commodity trading manager in certain jurisdictions where required.

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 and territorial securities legislation. Amongst 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 and territorial securities legislation on advertising and sales incentives.

AGF Mutual Funds

In order to qualify for continuous distribution, each of the mutual funds managed by AGFFI must file each year an annual information form and simplified prospectus in every province and territory of Canada in which it intends to distribute securities and obtain a receipt for the same from provincial and territorial securities regulatory authorities. Certain funds are offered in overseas jurisdictions, each of which have their own filing requirements. Similarly, the Goldrings Group of Funds, off-shore mutual funds domiciled in Ireland and managed by AGF International Advisors Company Limited, must file offering documents annually in Ireland and Japan in order to qualify for distribution in Japan.

Each mutual fund managed by AGFFI, as well as AGFFI as manager, is liable for any misrepresentation in the offering documents of the fund, as is AGF International Advisors Company Limited with respect to the Goldrings Group of Funds. Pursuant to securities legislation in certain of the provinces and territories of Canada, none of the mutual funds managed by AGFFI can make portfolio investments in substantial securityholders of the funds, in AGF or in corporations in which the directors or officers of the funds, or their substantial securityholders, have a significant interest.

AGF International Advisors Company Limited

AGF International Advisors Company Limited is a private limited company incorporated under the laws of the Republic of Ireland and is authorized by the Irish Financial Services Regulatory Authority (IFSRA) under Section 10 of the Investment Intermediaries Act 1995, to provide a range of financial services, including the provision of investment advice, the managing of portfolios on a discretionary basis and the execution of orders, other than for own account. As an authorized entity, AGF International Advisors Company Limited is subject to a range of Irish and EU regulations. AGF International Advisors Company Limited is the manager of the Goldrings Group of Funds, an umbrella unit trust domiciled in Ireland. The Goldrings Group of Funds must file offering documents annually in Ireland and Japan in order to qualify for distribution in Japan. As manager, AGF International Advisors Company Limited is liable for any misrepresentation in these offering documents.

AGF Asset Management Asia Ltd.

Established in 1996, AGF Asset Management Asia Ltd. provides investment research and advisory services on Asian markets for AGF mutual funds and other clients. AGF Asset Management Asia Ltd. is regulated by the Monetary Authority of Singapore ('MAS') under the Securities and Futures Act. The company holds a Capital Markets Services licence which permits it to offer fund management services to accredited investors. AGF Asset Management Asia Ltd. is required to obtain the prior approval of MAS for any significant change of its members or shareholdings of its members.

AGF Private Investment Management

AGF PIM, Cypress Capital Management Ltd. ('Cypress'), P.J. Doherty & Associates Co. Ltd. ('Doherty') and Highstreet Asset Management Inc. ('Highstreet') are each registered with the OSC as an investment counsel and portfolio manager, and maintain equivalent registrations in each of the other provinces and territories of Canada in which they respectively do business. AGF PIM, Cypress, Doherty and Highstreet are also registered with the OSC as limited market dealers for the purpose of facilitating the distribution of certain securities to their clients. In addition, Highstreet is registered in Ontario as a Commodity Trading Manager.

AGF Securities (Canada) Limited

AGF Securities (Canada) Limited is a member of the Investment Dealers Association and is registered as an investment dealer with the securities regulatory authorities in each of Alberta, British Columbia, Ontario and Saskatchewan. AGF Securities (Canada) Limited is also a member of the Canadian Investor Protection Fund.

Trust Company Operations

AGF Trust Company

AGF Trust Company ('AGF Trust') is incorporated under and governed by the federal *Trust and Loan Companies Act* (Canada) and is extra-provincially licensed and registered under the applicable legislation in all provinces and territories of Canada. *The Trust and Loan Companies Act* (Canada) specifies the powers of a trust company and imposes investment restrictions. Most significantly, the legislation provides for annual and other reports to be filed on the financial condition of the trust company; periodic examinations of the trust 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. AGF Trust is supervised by the federal Office of the Superintendent of Financial Institutions. As a federally regulated financial institution, AGF Trust is also subject to oversight from the Financial and Consumer Agency of Canada and, along with AGF and its other affiliates, the Privacy Commissioner, the Financial Transactions

Management's Discussion and Analysis

and Reports Analysis Centre of Canada, and other government agencies, including provincial authorities.

AGF Trust is a member of Canadian Deposit Insurance Corporation, which provides a statutory scheme for the

insurance of certain qualifying deposits made and payable in Canada in Canadian currency. AGF Trust is also a member of the Canadian Payments Association, the Ombudsman for Banking Services and Investments and is an approved Canadian Mortgage and Housing Corporation lender.

Fourth Quarter Analysis

Summary of Consolidated Operating Results

The table below highlights our results for the three months ended November 30, 2006 and 2005:

(\$ millions, except per share amounts)

Three months ended November 30	2006	2005	% change
Revenue			
Investment management operations	\$ 140.8	\$ 122.7	14.8%
Trust company operations	42.9	21.7	97.7%
Other	4.4	4.6	(4.3%)
Intersegment eliminations	(0.6)	(0.4)	n/m
	187.5	148.6	26.2%
Expenses			
Investment management operations	89.5	79.0	13.3%
Trust company operations ¹	35.4	16.8	110.7%
Other	2.6	2.3	13.0%
Intersegment eliminations	(0.6)	(0.4)	n/m
	126.9	97.7	29.9%
EBITDA¹ (continuing operations)			
Amortization	33.5	34.9	(4.0%)
Interest expense	0.9	(0.1)	(1,000.0%)
Income taxes	5.2	4.0	30.0%
Net income from continuing operations	\$ 21.0	\$ 12.1	73.6%
Gain on sale of discontinued operations, net of tax	0.0	15.6	(100.0%)
Net earnings of discontinued operations, net of tax	0.0	0.3	(100.0%)
Net income	21.0	28.0	(25.0%)
Cash flow from continuing operations ²	53.8	47.8	12.6%
Earnings per share from continuing operations – diluted	\$ 0.23	\$ 0.13	76.9%

¹ As previously defined, see 'Key Performance Indicators and Non-GAAP Measures – EBITDA'. The items required to reconcile EBITDA to Net Income as defined term under Canadian GAAP, are detailed above.

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

Results from Continuing Operations

Revenue for the fourth quarter ended November 30, 2006 was up 26.2% from the same period in 2005, with the Trust Company segment contributing an increase of \$21.2 million and the Investment Management segment contributing an increase of \$18.1 million. Revenues from the Other segment were down 4.3%.

Expenses in the fourth quarter ended November 30, 2006 increased by \$29.2 million over the same period a year ago with \$18.6 million of the increase coming from the Trust Company Operations segment primarily due to higher quarter-over-quarter interest expense and increased provisions for loan

loses. The remaining increase is attributable to the Investment Management Operations segment with close to half the increase coming in the form of increased trailing commissions related to increased levels of AUM and the remainder due to higher compensation costs.

Cash flow from operations and EBITDA were higher for the quarter ended November 30, 2006, compared to the respective quarter in 2005, predominantly due to increased revenue in both the Investment Management and Trust Company Operations segments.

Our income tax expense for the three months ended November 30, 2006 was \$5.2 million, as compared to an income tax expense of \$4.0 million in the three months ended November 30, 2005.

The impact of the above revenue and expense items resulted in net income from continuing operations of \$21.0 million in the three months ended 2006 compared to a net income from continuing operations of \$12.1 million in fiscal 2005. Basic and fully diluted earnings per share from continuing operations were \$0.24 and \$0.23 per share, respectively, in the three months ended November 30, 2006 as compared to \$0.13 per share (basic and fully diluted) in 2005.

On a diluted per share basis, cash flow from continuing operations for the three months ended November 30, 2006 was \$0.60 per share (2005 – \$0.53).

Net Earnings

Net income for the three months ended November 30, 2006 was \$21.0 million as compared with \$28.0 million in the prior year. The 25% decrease in net income related to gains from discontinued operations recorded in the fourth quarter of 2005. The 2005 results from discontinued operations reflected the results of Unisen, which was sold on October 3, 2005.

The details of the 2006 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, 2006 and 2005:

(\$ millions)	2006	2005	% change
Three months ended November 30			
Mutual fund AUM, beginning of period	\$ 24,429	\$ 22,198	10.1%
Gross sales of mutual funds	1,396	737	89.4%
Redemptions of mutual funds	(972)	(1,066)	(8.8%)
Net mutual fund sales (redemptions)	424	(329)	(228.9%)
Market appreciation of fund portfolios	2,004	340	489.4%
Mutual fund AUM, end of period	\$ 26,857	\$ 22,209	20.9%
Institutional AUM	9,425	6,332	48.8%
PIM AUM	6,489	5,589	16.1%
Total AUM	\$ 42,771	\$ 34,130	25.3%
Average daily mutual fund AUM for the period	\$ 25,251	\$ 22,145	14.0%

During the three months ended November 30, 2006, the Canadian-dollar-adjusted S&P 500 Index rose 11.26%, the Canadian-dollar-adjusted NASDAQ Index rose 14.8% and the S&P/TSX Composite Index rose 6.27%.

The impact of the U.S. dollar increase relative to the Canadian dollar on the market value of AGF mutual funds since August 31, 2006 has been an increase in AUM of approximately \$0.2 billion (2005 – reduction of \$0.1 billion).

Net sales of \$424 million, \$2.0 billion of market appreciation in AUM and additional Institutional AUM resulted in a significant increase in total AUM of 25.3% since August 31, 2006.

Management's Discussion and Analysis

Financial and Operational Results

The table below highlights the Investment Management Operations segment results for the three months ended November 30, 2006 and 2005:

(\$ millions) Three months ended November 30	2006	2005	% change
Revenue			
Net management and advisory fees	\$ 113.0	\$ 98.5	14.7%
Administration fees and other revenue	21.7	17.2	26.2%
Deferred sales charges	5.5	8.2	(32.9%)
Investment income	0.6	(1.2)	(150.0%)
	140.8	122.7	14.8%
Expenses			
Selling, general and administrative	49.3	44.5	10.8%
Trailing commissions	33.0	27.8	18.7%
Investment advisory fees	7.2	6.7	7.5%
	89.5	79.0	13.3%
EBITDA ¹	51.3	43.7	17.4%
Amortization	32.5	33.7	(3.6%)
Income before taxes and non-segmented items	\$ 18.8	\$ 10.0	88.0%

¹ 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 results for the three months ended November 30, 2006 and 2005:

(\$ millions) Three months ended November 30	2006	2005	% change
Interest, administration fees and other revenue	\$ 42.2	\$ 21.7	94.5%
Securitization gain and related items	0.7	0.0	n/m
	42.9	21.7	97.7%
Expenses			
Selling, general and administrative	8.3	5.3	56.6%
Interest on deposits	24.8	10.0	148.0%
Provision for loan losses	2.4	1.5	60.0%
	35.5	16.8	111.3%
EBITDA ¹	7.4	4.9	51.0%
Amortization	0.3	0.2	50.0%
Income before taxes and non-segmented items	\$ 7.1	\$ 4.7	51.1%
Interest, administration fees and other revenue	42.2	21.7	94.5%
Administration fees and other revenue	(2.0)	(1.0)	100.0%
Total interest income	40.2	20.7	94.2%
Total interest expense	24.8	10.0	148.0%
Net interest margin	15.4	10.7	43.9%

¹ As previously defined, see the 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section.

Selected Quarterly Information

(\$ millions, except per share amounts) Three months ended	Nov. 30, 2006	Aug. 31, 2006	May 31, 2006	Feb. 28, 2006
Revenue	\$ 187.5	\$ 172.6	\$ 174.2	\$ 169.2
Cash flow from continuing operations ¹	53.8	61.7	54.3	50.1
EBITDA ²	60.6	56.1	65.6	68.7
Pre-tax income (continuing operations)	26.2	21.7	31.0	34.4
Net income (loss)	21.0	34.6	33.0	24.1
Earnings per share				
Basic	\$ 0.24	\$ 0.40	\$ 0.37	\$ 0.27
Diluted	\$ 0.23	\$ 0.39	\$ 0.37	\$ 0.27
Weighted average basic shares	89,174,064	89,055,124	89,006,146	89,190,007
Weighted average fully diluted shares	89,890,105	89,457,921	89,973,999	90,031,001

(\$ millions, except per share amounts) Three months ended	Nov. 30, 2005	Aug. 31, 2005	May 31, 2005	Feb. 28, 2005
Revenue	\$ 148.6	\$ 153.0	\$ 147.1	\$ 145.7
Cash flow from continuing operations ¹	47.8	53.9	57.6	56.9
EBITDA ²	50.9	65.3	63.7	65.0
Pre-tax income (continuing operations)	16.1	29.6	27.4	28.7
Net income	28.0	20.3	22.4	21.2
Earnings per share				
Basic	\$ 0.31	\$ 0.23	\$ 0.25	\$ 0.23
Diluted	\$ 0.31	\$ 0.23	\$ 0.25	\$ 0.23
Weighted average basic shares	89,203,949	89,615,145	90,553,323	90,739,413
Weighted average fully diluted shares	89,868,786	89,915,619	90,886,073	91,085,474

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

2 As previously defined, see 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section.

Selected Annual Information

(\$ millions, except per share amounts)
For the years ended November 30

	2006	2005	2004
Revenue (continuing operations)	\$ 703.5	\$ 594.4	\$ 585.4
Cash flow from operations ¹	219.9	217.2	196.0
EBITDA (continuing operations) ²	251.0	244.8	235.7
Pre-tax income	113.3	101.7	80.5
Net income (continuing operations)	102.2	72.7	74.7
Earnings per share (continuing operations)			
Basic	\$ 1.15	\$ 0.81	\$ 0.82
Diluted	\$ 1.14	\$ 0.80	\$ 0.81
Cash flow from continuing operations			
Basic	\$ 2.47	\$ 2.42	\$ 2.15
Diluted	\$ 2.45	\$ 2.41	\$ 2.14
Dividends per share	\$ 0.69	\$ 0.56	\$ 0.41
Total corporate assets	\$ 3,919.8	\$ 2,709.7	\$ 2,169.4
Total long-term debt	\$ –	\$ 17.4	\$ 68.3

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

2 As previously defined, see '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, 2006. The Company's 2006 Annual Information Form and other documents filed with applicable securities regulators in Canada and may be accessed at www.sedar.com.

Management's Responsibility for Financial Reporting

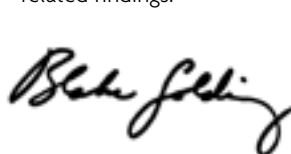
Toronto, January 30, 2007

The accompanying consolidated financial statements of AGF Management Limited were prepared by management, which is responsible for the integrity and fairness of the information presented, including the amounts based on estimates and judgements. 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 comprised entirely of independent 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

Chairman &
Chief Executive Officer



Gregory J. Henderson, ca

Senior Vice President &
Chief Financial Officer

Auditors' Report

January 30, 2007

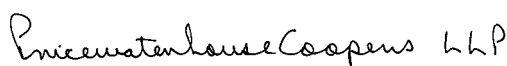
To the Shareholders of AGF Management Limited:

We have audited the consolidated balance sheets of AGF Management Limited as at November 30, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for each of the years in the two-year period ended November 30, 2006. 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, 2006 and 2005 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.



PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada

Consolidated Balance Sheets

(In thousands of dollars)

November 30

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 405,907	\$ 159,974
Short-term investments (note 7)	10,723	23,805
Current portion of retained interest from securitization (note 2)	3,767	–
Accounts receivable and prepaid expenses	94,063	49,386
Income taxes receivable	4,703	–
Real estate secured and investment loans due in one year (note 8)	309,329	315,987
	828,492	549,152
Real estate secured and investment loans (note 8)	1,997,294	1,079,280
Retained interest from securitization (note 2)	23,893	–
Investment in associated company (note 5)	107,735	96,000
Other investments	5,524	7,142
Management contracts (note 4)	478,259	478,749
Customer contracts, relationships and investment advisory contracts, net of accumulated amortization of \$70,787 (2005 – \$55,516)	59,583	75,281
Deferred selling commissions, net of accumulated amortization of \$430,197 (2005 – \$847,718)	268,243	275,015
Property, equipment and other intangible assets, net of accumulated amortization (note 9)	23,446	21,639
Goodwill	126,399	126,183
Other assets	900	1,226
	\$ 3,919,768	\$ 2,709,667

(In thousands of dollars)
November 30

	2006	2005
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 164,545	\$ 95,197
Long-term debt due within one year (note 10)	56,000	8,277
Income taxes payable	—	14,252
Deposits due within one year (note 8)	1,022,774	467,317
	1,243,319	585,043
Deposits (note 8)	1,465,490	940,435
Long-term debt (note 10)	—	17,364
Participation units (note 10)	—	6,157
Future income taxes (note 14)	231,061	242,188
Leasehold inducements	127	154
	2,939,997	1,791,341
Shareholders' equity		
Capital stock (note 15)	403,566	394,154
Contributed surplus (note 16)	10,470	5,900
Retained earnings	565,576	527,197
Foreign currency translation adjustment	159	(8,925)
	979,771	918,326
	\$ 3,919,768	\$ 2,709,667

Commitments (note 22)

Guarantees (note 23)

Contingent liabilities (note 24)

Subsequent events (note 25)

(See accompanying notes to Consolidated Financial Statements.)

Approved by the Board:



Blake C. Goldring, CFA
Director



Douglas L. Derry, FCA
Director

Consolidated Statements of Income

(In thousands of dollars, except per share amounts)

For the years ended November 30

	2006	2005
Revenue:		
Net management and advisory fees	\$ 430,907	\$ 404,463
Administration fees, interest and other revenue	233,491	148,017
Deferred sales charges	25,474	37,342
Gain on sale of RSP loan securitization and related income (note 2)	12,086	–
Gain on sale of short-term investments (note 7)	17	4,478
Investment income	1,506	146
	703,481	594,446
Expenses:		
Selling, general and administrative	214,547	177,360
Trailing commissions	125,331	110,283
Investment advisory fees	27,647	26,759
Amortization of deferred selling commissions	108,169	112,625
Amortization of customer contracts, relationships and investment advisory contracts	15,270	14,898
Amortization of property, equipment and other intangible assets	11,335	11,490
Interest on Trust Company deposits	76,504	29,831
Interest expense	2,861	4,095
Provision for Trust Company loan losses (note 8)	8,501	5,375
	590,165	492,716
Income from continuing operations before income taxes	113,316	101,730
Income tax expense (reduction) (note 14)		
Current	31,492	36,476
Future	(20,411)	(7,458)
	11,081	29,018
Net income from continuing operations for the year	102,235	72,712
Gain on repayment of debt, net of tax (note 10(b))	13,309	–
(Loss) gain on sale of discontinued operations, net of tax (note 3)	(2,887)	15,617
Net earnings from discontinued operations, net of tax (note 3)	–	3,543
Net income for the year	\$ 112,657	\$ 91,872
Earnings per share (note 17)		
Basic from continuing operations	\$ 1.15	\$ 0.81
Diluted from continuing operations	\$ 1.14	\$ 0.80
Basic	\$ 1.26	\$ 1.02
Diluted	\$ 1.25	\$ 1.01

(See accompanying notes to Consolidated Financial Statements.)

Consolidated Statements of Retained Earnings

(In thousands of dollars)

For the years ended November 30

	2006	2005
Retained earnings, beginning of year	\$ 527,197	\$ 517,681
Net income for the year	112,657	91,872
	639,854	609,553
Deduct:		
Dividends on AGF Class A Voting Common Shares and AGF Class B Non-Voting Shares	61,521	50,522
Excess paid over book value of AGF Class B Non-Voting Shares purchased for cancellation (note 16)	12,757	31,834
	74,278	82,356
Retained earnings, end of year	\$ 565,576	\$ 527,197

(See accompanying notes to Consolidated Financial Statements.)

Consolidated Statements of Cash Flow

(In thousands of dollars)

For the years ended November 30

	2006	2005
		(note 3)
Operating activities		
Net income for the year	\$ 112,657	\$ 91,872
Loss (gain) on sale of discontinued operations, net of tax	2,887	(15,617)
Gain on early retirement of debt, net of income taxes	(13,309)	–
Results of discontinued operations, net of tax	–	(3,543)
Net income from continuing operations for the year	102,235	72,712
Items not affecting cash		
Amortization of deferred selling commissions	108,169	112,625
Amortization of customer contracts, relationships and investment advisory contracts	15,270	14,898
Amortization of property, equipment and other intangible assets	11,335	11,490
Future income taxes	(20,411)	(7,458)
Gain on sale of RSP loan securitization	(9,850)	–
Gain on sale of short-term investments	(17)	(4,478)
Mark-to-market on swap transactions	365	(1,244)
Provision for Trust Company loan losses	8,501	5,375
Other	4,308	13,289
	219,905	217,209
Net increase in non-cash balances related to continuing operations	2,305	6,963
Net cash provided by continuing operations	222,210	224,172
Net cash provided by discontinued operating activities	–	10,172
Net cash provided by operating activities	222,210	234,344
Financing activities		
Purchase of AGF Class B Non-Voting Shares for cancellation	(15,865)	(42,521)
Issuance of AGF Class B Non-Voting Shares	9,920	8,117
Dividends	(61,521)	(50,522)
Increase (decrease) in bank loan	56,000	(78,700)
Retirement of debt	(3,360)	–
Decrease in other long-term debt	(1,324)	(1,252)
Increase in leasehold inducements	–	27
Increase in Trust Company deposits	1,080,512	646,520
Net cash provided by continuing financing activities	1,064,362	481,669
Net cash used in discontinued financing activities	–	(1,641)
Net cash provided by financing activities	1,064,362	480,028

(In thousands of dollars)

For the years ended November 30

	2006	2005
		(note 3)
Investing activities		
Deferred selling commissions paid	(101,397)	(60,022)
Proceeds of RSP loan securitization	206,274	–
Purchase of management contracts and customer relationships	918	(9,104)
Acquisition of subsidiaries, net of cash acquired	(4,116)	(5,376)
Payments associated with sale of discontinued operations (see note 3)	(7,767)	105,981
Purchase of property, equipment and other intangible assets	(14,042)	(8,749)
Purchase of investments	(9,677)	(24,222)
Sale of investments	25,643	24,893
Increase in Trust Company real estate secured and investment loans	(1,136,475)	(693,336)
Net cash used in continuing investing activities	(1,040,639)	(669,935)
Net cash used in discontinued investing activities	–	(3,268)
Net cash used in investing activities	(1,040,639)	(673,203)
Increase in cash and cash equivalents during the year	245,933	41,169
Balance of cash and cash equivalents, beginning of year	159,974	118,805
Balance of cash and cash equivalents, end of year	\$ 405,907	\$ 159,974
Represented by:		
Cash and cash equivalents	\$ 17,159	\$ 30,095
Trust Company cash and cash equivalents	388,748	129,879
	\$ 405,907	\$ 159,974

(See accompanying notes to Consolidated Financial Statements.)

(tabular amounts in thousands of dollars, except per share amounts)

Years ended November 30, 2006 and 2005

Description of Business

AGF Management Limited ('the Company') is incorporated under the Business Corporations Act (Ontario). The Company is an integrated, global wealth management corporation whose principal subsidiaries provide mutual fund management, private investment counseling services for high-net-worth clients, estates, endowments, institutions and corporations, trust products and services (including real estate secured and investment lending and deposit-taking activities), investment advisory services and investment industry software development for individual and institutional clients. The Company conducts the management and distribution of mutual funds in Canada under the brand names AGF, Elements and Harmony (collectively, 'AGF Funds'). The Company conducts 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 the Company 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 subsidiaries of AGF are:

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

In addition, the Company holds a 30.7% interest in Smith & Williamson Holdings Limited ('S&WHL'), an independent U.K.-based company providing private client investment management, financial advisory, tax and accounting services. This investment is accounted for using the equity method.

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 real estate secured and investment 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 comprised of cash and temporary investments consisting of highly liquid investments with short-term maturities.

Short-term Investments

Short-term investments primarily consist of investments in mutual funds of AGF and securities which will form the basis for commercial products. As such, short-term investments are usually held for periods of less than one year. These investments are valued at the lower of cost or market.

Other Investments

Other investments represent those made by the Company with a view to hold the investment for periods in excess of 12 months. These investments are recorded at cost and written down when there is evidence that a decline in value that is other than temporary has occurred.

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, which are expected to be in effect when the future income tax assets or liabilities are expected to be realized or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income

in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

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 into Canadian dollars using the current rate method. Under this method assets and liabilities are translated at the exchange rate prevailing 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 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.

Deferred Selling Commissions

Selling commissions paid to brokers 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 comprised 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

Finite-life Intangible Assets

Finite-life intangible assets, which are comprised of customer contracts and relationships and investment advisory contracts and computer software, are stated at cost, net of accumulated amortization. Amortization is computed on a straight-line basis based on the estimated useful lives of these assets:

Customer contracts and relationships	7 to 15 years
Investment advisory contracts	5 years
Computer software	3 to 5 years

Impairment of Long-lived Assets

Impairment of long-lived assets is recognized when an event or change in circumstance causes the assets' carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset or group of assets from its carrying value.

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 with 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, 2006 and 2005, the Company 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.

Real Estate Secured Loans and Investment Loans

Real estate secured loans and investment loans are carried at amortized cost less principal repayments less any holdbacks, net of an allowance for loan losses. Interest income from loans is recorded on an accrual basis. Accrued but uncollected interest on uninsured real estate secured and investment loans is reversed when a loan is identified as impaired. Principal payments on the real estate secured loans and investment loans that are contractually due to the Company in the 12-month period from the balance sheet date are classified as current assets.

Fees that relate to the origination of loans are deferred and recognized as selling expenses on a straight-line basis over the average expected term of the loans.

Allowance for Loan Losses

The allowance for loan losses consists of both specific allowances on impaired loans, and general allowances. General allowances are based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of specific allowances. The assessment includes portfolio-specific credit factors, general economic factors and geographic exposure.

Impaired Loans

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the collectibility, either in whole or in part, of principal or interest, 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, an agency thereof or another third-party insurer is classified as impaired when interest or principal is past due 365 days, or in the case of other loans, when they are contractually in arrears for 180 days.

When a loan is identified as impaired, the carrying amount of the loan is reduced to its estimated realizable value. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the loan are credited to the provision for loan losses in the consolidated statements of income. Where a portion of the loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest. Interest income is recognized on impaired loans on a cash basis only after the specific allowance for losses has been reversed and provided there is no further doubt as to the collectibility of the principal.

Deposits

Deposits are substantially guaranteed investment certificates (GICs) that require the Company to pay a fixed interest rate until the maturity date of the certificate. Interest expense is recorded on an accrual basis.

GICs that mature in the 12-month period following the balance sheet date are classified as current liabilities.

Stock-based Compensation and Other Stock-based Payments

The Company has stock-based compensation plans as described in note 16. The Company utilizes the fair-value-based method of accounting for stock-based compensation. The fair

value of stock-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 AGF's Class B Non-Voting Shares (Class B Shares). The Company matches a portion of these amounts. The Company's contribution vests immediately and is recorded as a charge to net income in the period in which the cash contribution is made.

During the year, the Company established a Restricted Share Unit ("RSU") plan for senior employees under which certain employees were granted RSU's of Class B Shares. Compensation expense and the related liability are recorded equally over the vesting period, taking into account fluctuations in the market price of Class B Shares, dividends paid and forfeitures.

Effective November 30, 2006, the Company established a Performance Share Unit ("PSU") plan for senior employees under which certain employees were granted PSUs of Class B Shares. Compensation expense and the related liability are recorded equally over the vesting period, taking into account the likelihood of the performance criteria being met, fluctuations in the market price of Class B Shares, dividends paid and forfeitures.

Assets Under Management

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

Earnings Per Share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding. Diluted earnings per share are calculated using the daily weighted average number of shares that would have been outstanding during the year had all potential common shares been issued at the beginning of the year, or when other potentially dilutive instruments were granted or issued, if later.

The treasury stock method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of options to acquire shares.

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 judgements – often in respect of matters that are inherently uncertain – are the provision for useful lives of depreciable assets, commitments and contingencies, loan loss provisions, valuation of securitized loans, stock-based compensation, performance share unit plan expense and the recoverability of property, equipment, goodwill and intangible assets using estimates of future cash flows. In addition, the Company has made 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.

Disposal of Long-lived Assets and Discontinued Operations

Long-lived assets to be disposed of by sale are measured at the lower of their carrying amount or fair value less cost to sell, and are not depreciated while classified as held for sale.

During 2005, the Company concluded the sale of its wholly owned subsidiary Unisen Holdings Inc. ("Unisen"). Unisen's assets and liabilities have been reclassified as discontinued operations and Unisen's operations for the 2005 period are reported as discontinued operations.

Hedging

Derivative instruments are used to manage the Company's exposure to interest and currency risks. The Company does not enter into derivative financial instruments for trading or speculative purposes. When derivative instruments are used, the Company determines whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a fair value hedge, a cash flow hedge, or a hedge of a foreign currency exposure of an investment in associated companies. The hedge is documented at inception, detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be assessed. The derivative instrument must be highly effective in accomplishing the objective of offsetting either changes in the fair value or forecasted cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Income and expenses on derivative instruments designated and qualifying as hedges are recognized in the same period as the related hedge item. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value. Derivatives that do not qualify for hedge accounting are carried at fair value in the Consolidated Balance

Sheet, and subsequent changes in their fair value are recorded in interest income or expense. Accrued income and expenses and deferred gains and losses are included in other assets and other liabilities, as appropriate, in the Consolidated Balance Sheet.

Foreign exchange forward contracts are used from time to time to manage foreign currency exposures from the investment in associated company having a functional currency other than the Canadian dollar. Foreign exchange gains or losses on these derivative financial instruments are recorded in a separate component of shareholders' equity as a foreign currency translation adjustment.

Accounting for Securitizations

The Company has securitized certain registered Retirement Savings Plan (RSP) loans through the sale of these loans to a securitization trust. In order for a securitization to be treated as a sale, the Company must surrender control over those loans included in the securitization. To surrender control, the securitized assets must be isolated from the Company and its creditors, even in the case of bankruptcy or receivership, and the Company must receive consideration other than the beneficial interest in the transferred assets.

In determining the gain or loss on sale, management estimates future cash flows by relying on estimates of the amount of interest that will be collected on the securitized assets, the yield paid to investors, the portion of the securitized assets that will be prepaid before their scheduled maturity, expected credit losses, the cost of servicing the assets and the rate at which to discount these expected future cash flows. Actual cash flows may differ significantly from those estimated by management. If actual cash flows are different from management's estimate of future cash flows then the gains or losses on the securitization recognized in income will be adjusted. Note 2 to the financial statements provides additional disclosure regarding the securitizations and related balance sheet and income statement impacts.

AGF Elements

In November 2005, the Company launched AGF Elements, which consists of five diversified fund-of-fund portfolios. If an AGF Elements portfolio does not match or outperform its customized benchmark over a three-year period, each individual investor will receive up to 90 basis points in additional units, calculated based on the value of such investment at the end of its related three-year period.

The Company will include in other liabilities up to 30 basis points per year of each investor's assets under management, adjusted for redemptions, until the end of the three-year measurement period of each investment made by such investor. At that time, if an individual investor's returns match or exceed the corresponding benchmark, the Company will

recognize the entire amount as management fee revenue. If an individual investor's actual returns are below the customized benchmark, a corresponding amount will be distributed to the investor in the form of additional units.

Consolidation of Variable Interest Entities

CICA AcG 15, "Consolidation of Variable Interest Entities ('VIE')" provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest.

The Company has reviewed its relationships and determined that there are no entities whose financial results would be required to be included or disclosed in the consolidated results for the year ended November 30, 2006 and 2005.

Future Accounting Changes

The CICA has issued three new accounting standards: CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement; Section 3865 Hedges; and Section 1530 Comprehensive Income. These standards will increase harmonization with U.S. and international accounting standards and became effective for the Company on December 1, 2006.

These standards require that all financial assets be classified as available for sale, trading, held to maturity or loans and receivables. Financial liabilities will be classified as trading or other. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability.

Financial assets and financial liabilities held-for-trading will be measured at fair value with the changes in fair value reported in earnings. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost. Available-for-sale financial assets will be measured at fair value with changes in fair value reported in other comprehensive income ('OCI') until the financial asset is disposed of, or becomes impaired.

Derivative instruments must be recorded on the balance sheet at fair value. Changes in the fair values of derivative instruments will be recognized in earnings, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI.

Accumulated other comprehensive income ('AOCI') will be a new component of shareholders' equity and a new statement entitled, Statement of Comprehensive Income will be added to the Company's financial statements. Comprehensive income is composed of the Company's net income and other comprehensive income. Other comprehensive income will include unrealized gains and losses on available-for-sale financial assets, foreign currency translation and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes.

A transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as at December 1, 2006 for the following: (i) financial instruments that the Company classifies as held-for-trading and that were not previously recorded at fair value; (ii) and the difference in the carrying amount of loans and deposits at December 1, 2006 and the carrying amount calculated using the effective interest rate from inception of the loan or deposit. A transition adjustment will be recognized in the opening balance of AOCI relating to adjustments arising due to the remeasuring of financial assets classified as available-for-sale. Neither of the transition amounts that will be recorded in the opening retained earnings or in the AOCI balance on December 1, 2006 is expected to be material to the Company's consolidated financial position.

Note 2. Securitization of AGF Trust Loans

On February 28, 2006, the Company, through its wholly owned subsidiary AGF Trust Company, securitized \$218.4 million of RSP loans through the sale of these loans to a securitization trust. Cash flows of \$206.3 million were received on the securitization and a gain net of transaction fees and expenses of \$9.9 million was recorded. As at November 30, 2006, \$161.3 million of securitized loans were outstanding.

When RSP loan receivables are sold in securitization to a securitization trust under terms that transfer control to third parties, the transaction is recognized as a sale and the related loan assets are removed from the consolidated balance sheet. As part of the securitization, certain financial assets are retained. The retained interests are carried at cost. A gain or loss on sale of the loan receivables is recognized immediately in income. The amount of the gain or loss is determined by estimating the fair value of future expected cash flows using management's best estimates of key assumptions: excess spread, discount rate on the interest-only strip, expected credit losses, prepayment rates and the expected weighted average life of RSP loans that are commensurate with the risks involved. Subsequent to securitization, any retained interest that cannot be contractually settled in such a way that the Company can

recover substantially all of its recorded investment will be adjusted to fair value. The current fair value of retained interests is determined using the present value of future expected cash flows as discussed above.

The Company has recorded retained interests of \$277 million (February 28, 2006 – \$34.0 million) made up of i) the rights to future excess interest on these RSP loans after investors in the securitization trust have received the return for which they contracted, valued at \$13.7 million (February 28, 2006 – \$16.6 million), ii) cash collateral of \$5.7 million (February 28, 2006 – \$5.4 million) and iii) over-collateralization of \$8.3 million (February 28, 2006 – \$12.0 million).

The impaired loans included in the securitized balances were equal to \$0.3 million as of November 30, 2006. During the 12 months ended November 30, 2006, \$0.8 million of securitized RSP loans were written off.

The Company's claim on the retained interests is subordinate to investors' interests. Recourse available to investors and the securitization trust is limited to the retained interests. For the 12 months ended November 30, 2006, cash flows of \$9.9 million were received on the securitized loans, of which \$4.1 million related to the over-collateralization, and \$5.8 million related to the interest-only strip. The total other income recognized from securitization during the 12 months ended November 30, 2006 was \$2.2 million.

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

Excess spread	3.8%
Discount rate on interest-only strip	7.5%
Expected credit losses	0.8%
Prepayment rate	14.0%
Expected weighted average life of RSP loans	30.2 months

The Company retained servicing responsibilities for the securitized loans. A servicing liability of \$1.1 million was recorded as at November 30, 2006 (February 28, 2006 – \$1.7 million). This amount represents the estimated future cost of servicing the securitized loans and has been offset against the gain on the sale of the RSP loans. The amount amortized related to the servicing liability during the 12 months ended November 30, 2006, was \$0.5 million.

The following table presents key economic assumptions and the sensitivity of the current fair value of retained interests to two adverse changes in each key assumption as at November 30, 2006. As the sensitivity is hypothetical, it should

be used with caution. The impact of changes in the fair value of retained interests was calculated using a discounted cash flow analysis.

Fair value of retained interests	\$	29,042
Discount rate		7.5%
+10%	\$	(180)
+20%		(355)
Prepayment rate		14.0%
+10%	\$	(242)
+20%		(465)
Expected credit losses		0.8%
+10%	\$	(287)
+20%		(573)

Note 3. Discontinued Operations and Assets Held for Sale

On October 3, 2005 the Company sold 100% of wholly owned subsidiary Unisen Holdings Inc. ('Unisen') to CitiFinancial Canada Inc. ('CitiFinancial'), for cash consideration of US\$97.5 million (C\$114.0 million). Expenses related to this transaction amounted to \$5.0 million. The consideration was subject to two adjustments for which the Company had accrued a net amount owing to CitiFinancial of \$1.8 million. The two adjustments were a working capital adjustment that provided that any working capital above a threshold is payable to AGF and the purchase price is subject to a clawback should Unisen's revenue fall below a threshold during the 12-month period ended June 30, 2006. AGF received \$5.0 million in respect of the working capital adjustment in the second quarter of 2006 and AGF paid \$10.0 million to CitiFinancial in respect of the clawback. In addition, AGF paid \$0.3 million to CitiFinancial in respect of a potential tax liability, including estimated interest and penalties owed by Unisen Holdings Inc. for periods prior to October 3, 2005. This has been recorded as a loss on sale of discontinued operations net of taxes of \$0.2 million. The Company has issued a put option in favour of CitiFinancial relating to certain Unisen assets. The put option expires 18 months after the date of acquisition. No value has been attributed to this option, as management does not believe it will be exercised.

Concurrent with the sale of Unisen to CitiFinancial, AGF has capped the management expense ratio on all of the AGF funds for three years at the lower of the actual levels reported in 2004 and 2005. In addition, the Company is committed for a 10-year period from the date of sale to reimburse CitiFinancial should CitiFinancial's annual revenues derived from AGF fund administration services fall below a pre-determined level.

Notes to Consolidated Financial Statements

Unisen's operations for 2005 have been reported as discontinued operations and previously reported financial statements have been reclassified to reflect the following:

Summary of discontinued operations

(\$000's)		2005
For the year ended November 30		
Revenue	\$	86,528
Income before income taxes		6,137
Income tax expense		2,594
Net earnings from discontinued operations		3,543
Basic net earnings per share	\$	0.04
Diluted net earnings per share	\$	0.04

Details of the gain on sale net of income taxes are as follows:

Gain on sale of discontinued operations

(\$000's)		2006	2005
For the year ended November 30			
Proceeds on sale	\$	–	\$ 113,958
Expenses related to transaction		–	(5,027)
Net reserve for subsequent adjustments		–	(1,826)
Subsequent purchase price adjustments in excess of reserve	(3,523)		–
Cost base of investment		–	(87,903)
(Loss) gain on sale before income taxes	(3,523)		19,202
Income taxes	636		(3,585)
(Loss) gain on sale, net of income taxes	\$	(2,887)	\$ 15,617

Note 4. Acquisition of Mutual Fund Assets from ING Investment Management Inc.

On August 5, 2005, the Company acquired the management rights to \$276 million in mutual fund assets from ING Investment Management Inc. ("ING") for cash consideration of \$9.1 million. Thirteen ING funds have been merged into corresponding AGF funds. The agreement also includes the acquisition of the management contract for ING Canadian Dividend Income Fund, which has been renamed AGF Dividend Income Fund.

The purchase price for the assets acquired was allocated as follows:

(\$000's)	
Net assets acquired	
Management contracts	\$ 5,081
Customer relationships	4,023
	\$ 9,104

The portion allocated to customer relationships is being amortized over their estimated useful life of seven years. The purchase price was also subject to a future reduction based on the level of mutual fund redemptions during the first year subsequent to acquisition. The Company received a payment of \$0.9 million in September 2006 of which \$0.5 million was allocated to Management Contracts and the remainder to Customer Relationships.

Note 5. Investment in Associated Company

On May 27, 2005, Smith & Williamson Holdings Limited ("S&WHL") completed the acquisition of 100% of the outstanding shares of Solomon Hare Personal Finance Limited ("SHPF") and the business of Solomon Hare LLP. The total consideration paid by S&WHL of \$20.6 million included cash of \$4.9 million and the issuance of 2.3 million shares valued at \$15.7 million. Prior to this transaction, the Company had a 31.8% interest in S&WHL. The Company holds a 30.7% interest in S&WHL. The dilution gain recorded in 2005 with respect to the acquisition of SHPF was \$0.1 million.

Note 6. Acquisitions of Cypress Capital Management Ltd. and P.J. Doherty & Associates Co. Ltd.

On June 30, 2004, the Company acquired 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.

Consideration paid on closing consisted of \$7.9 million of cash and 285,553 Class B Non-Voting Shares. Further payments were required and made subsequent to closing. On June 30, 2005, consideration consisted of \$3.9 million in cash and issuance of 159,696 AGF Class B Non-Voting Shares valued at \$2.6 million. On June 30, 2006, consideration consisted of \$3.9 million in cash and issuance of 129,601 Class B Non-Voting Shares valued at \$2.6 million.

In addition to the aforementioned consideration paid, there is additional consideration due June 30, 2007 subject to Cypress achieving certain revenue levels. This amount is not determinable at the present time.

On January 15, 2004, the Company acquired 100% of the shares of P.J. Doherty & Associates Co. Ltd. During 2006, the Company paid the final scheduled payment of \$0.2 million (2005 – \$0.2 million) related to this acquisition based on revenue growth during these years. This payment was recorded as an increase in goodwill.

Note 7. Gain on Sale of Short-term Investments

During the year, the Company sold short-term investments of \$22.8 million (2005 – \$23.9 million). The gain related to the sale of short-term investments in 2006 was not significant (2005 – \$4.5 million).

Note 8. Trust Company

The Trust Company's principal business activities are real estate secured loans, investment loans and deposit taking. Details related to these activities are as follows:

(a) Real Estate Secured and Investment Loans

The table represents the period of contractual repricing of interest rates on outstanding amounts. Principal repayments due on real estate and investment loans due within one year as at November 30, 2006 were \$309.3 million (2005 – \$316.0 million).

(\$000's)	Term To Contractual Repricing			2006	2005
	Variable Rate	1 Year or Less	1 to 5 Years		
Residential mortgage loans	\$ 2,275	\$ 451,682	\$ 462,080	\$ 916,037	\$ 516,978
Commercial mortgage loans	–	14,838	11,087	25,925	35,823
Home equity lines of credit (HELOC)	116,194	–	–	116,194	–
Total real estate secured loans	118,469	466,520	473,167	1,058,156	552,801
Investment loans	1,246,255	985	13,926	1,261,166	850,666
	1,364,724	467,505	487,093	2,319,322	1,403,467
Less allowance for loan losses				12,699	8,200
				\$2,306,623	\$ 1,395,267
Less: current portion				309,329	315,987
				\$ 1,997,294	\$ 1,079,280
Impaired loans included in above				16,368	5,199
Less specific allowance for loan losses				2,448	1,488
				\$ 13,920	\$ 3,711

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

(\$000's)	2006	2005
Balance, beginning of year	\$ 8,200	\$ 4,267
Amounts written off	(2,697)	(1,668)
Recoveries	465	226
Reduction due to RSP loan securitization	(1,770)	–
Provision for loan losses	8,501	5,375
Balance, end of year	\$ 12,699	\$ 8,200

As at November 30, 2006, the Company's mortgage portfolio was comprised of a combination of fixed rate and variable rate residential mortgages, of which \$403.4 million (2005 – \$309.9 million) is insured, with a weighted average term to maturity of 1.8 years (2005 – 1.2 years) and a weighted average yield of 6.81% (2005 – 5.80%). Investment loans have interest rates based on prime. For the year ended November 30, 2006, the average interest rate on HELOC was 6.08% and on investment loans was 7.39% (2005 – 6.52%).

(b) Trust Company Deposits

(\$000's)	Term To Maturity				November 30, 2005
	Demand	1 Year or Less	1 to 5 Years	November 30, 2006	
Deposits	\$ 10,047	\$ 1,012,727	\$ 1,465,490	\$ 2,488,264	\$ 1,407,752

As at November 30, 2006, deposits were comprised substantially of GICs with a weighted average term to maturity of 1.9 years (2005 – 1.9 years) and a weighted average interest rate of 4.05% (2005 – 3.64%).

(c) Interest Rate Swaps

To hedge its exposure to fluctuating interest rates, the Trust Company has entered into interest-rate-swap transactions with four Canadian chartered banks as noted below. The swap transactions expire between December 31, 2006 and November 30, 2011 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, 2006, the aggregate notional amount of the swap transactions was \$1,712.7 million (2005 – \$939.7 million). The aggregate fair value of the swap transactions, which represents the amount that would be received by the Trust

Company if the transactions were terminated at November 30, 2006, was \$3.8 million (2005 – the Trust Company would have paid \$2.4 million).

Notional Amount of Swap (\$000's)	Maturity Date	Fixed Interest Rate Received
40,000	2006	3.64% – 3.91%
633,700	2007	3.00% – 5.11%
367,000	2008	3.18% – 4.68%
242,000	2009	3.47% – 4.66%
280,000	2010	3.62% – 4.78%
150,000	2011	4.10% – 4.86%

(d) Interest Rate Sensitivity

For the Trust Company, the impact of a 1% change in interest rates either up or down would be a change of annual net interest income of approximately \$0.2 million as most of the loan portfolios are hedged.

Note 9. Property, Equipment and Other Intangible Assets

(\$000's) November 30, 2006	Cost	Accumulated Amortization	Net
Property and equipment			
Furniture and equipment	\$ 19,753	\$ 16,532	\$ 3,221
Leasehold improvements	20,430	12,792	7,638
Computer hardware	8,859	3,572	5,287
	49,042	32,896	16,146
Other intangible assets			
Computer software	52,217	44,917	7,300
	\$ 101,259	\$ 77,813	\$ 23,446

(\$000's) November 30, 2005	Cost	Accumulated Amortization	Net
Property and equipment			
Furniture and equipment	\$ 15,457	\$ 11,576	\$ 3,881
Leasehold improvements	15,759	11,016	4,743
Computer hardware	7,443	3,607	3,836
	38,659	26,199	12,460
Other intangible assets			
Computer software	47,069	37,890	9,179
	\$ 85,728	\$ 64,089	\$ 21,639

Note 10. Long-term Debt

(S000's)	2006	2005
November 30		
Revolving term loan	\$ 56,000	\$ -
Notes payable due		
April 30, 2013	-	18,074
Payment re CISL due		
January 31, 2006	-	1,067
Cypress payment due		
June 30, 2006 (note 6)	-	6,500
	56,000	25,641
Less: amount included		
in current liabilities	56,000	8,277
	\$ -	\$ 17,364

(a) Revolving Term Loan

The Company has arranged a six-year prime-rate-based revolving term loan to a maximum of \$200.0 million with a Canadian chartered bank. Under the loan agreement, the Company is permitted to draw down the revolving term loan by direct advances and/or bankers' acceptances ('BAs'). The revolving term loan is available at any time for a period of 364 days from commencement of the loan (the 'Commitment Period'). The expiration of the current commitment period is June 30, 2007. However, the Company may request by April 15, 2007, and prior to April 15 in any calendar year thereafter, a recommencement of the six-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-thirty-sixth of the amount of principal outstanding.

As at November 30, 2006, the Company has drawn \$56.0 million against the available loan amount in the form of a one-day bankers' acceptance at an effective average interest rate of 4.60% per year. As this loan functions as a working capital facility, it has been included in current liabilities.

Security for the bank loan 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 and Participation Units

In May 2006, the Company reached an agreement with Multi-Fund Management Inc., the manager of Multi-Fund Income Trust ('Trust'), to terminate its obligations to the Trust for a cash payment of \$3.4 million. The termination of the Company's cash flow obligation was subject to a Trust Unitholder meeting, which was held on June 8, 2006. The Trust Unitholders approved the agreement and on June 12, 2006, the Company repurchased the debt related to the Trust.

Details of the gain recorded on repayment of debt were as follows:

(S000's)	2006
November 30	
Notes payable due April 30, 2013	\$ 17,817
Participation units	6,157
	23,974
Cash consideration paid, June 12, 2006	(3,360)
Gain on early repayment of debt	20,614
Income taxes	7,305
Gain on early repayment of debt, net of income taxes	\$ 13,309

(c) Payment to Consort Information Systems Limited ('CISL') due January 31, 2006

In 2003 the Company, through its wholly owned subsidiary, Investmaster Group Limited ('Investmaster'), acquired all the outstanding shares of CISL. Cash consideration paid was \$8.3 million with an additional payment of \$1.1 million due, which was paid on January 31, 2006.

(d) Interest Rate Sensitivity

The effect of a 1% change in interest rates will increase or decrease annual interest expense on the Company's debt by approximately \$0.2 million (2005 - \$0.1 million).

Note 11. Interest Rate Swap and Foreign Exchange Hedge Transactions

To fix the interest rate paid on a portion of its revolving term loan, 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, 2006, the aggregate notional amount of the Swap Transactions was \$10.9 million (2005 – \$20.6 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, 2006, was \$0.1 million (2005 – \$0.4 million).

To hedge its currency exposure and to fix the interest rate on borrowings in connection with a Japanese yen-denominated investment included in Other Investments, the Company entered into a cross-currency swap transaction, which expired on November 29, 2006. The cross-currency swap transaction was settled on November 29, 2006 and the Company received a payment of \$0.4 million (if the transaction had been terminated on November 30, 2005, the Company would have received \$0.4 million).

The Company did not hedge its currency exposure in connection with its investment in S&WHL in 2006 and 2005.

Note 12. Fair Value of Financial Instruments

(\$000's)	November 30, 2006		November 30, 2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Real estate secured and investment loans	\$2,306,623	\$ 2,310,359	\$ 1,395,267	\$ 1,396,040
Short-term investments	10,723	13,529	23,805	25,216
Other investments	5,524	8,492	7,142	9,994
	\$2,322,870	\$ 2,332,380	\$ 1,426,214	\$ 1,431,250
Deposits	\$2,488,264	\$2,492,530	\$ 1,407,752	\$ 1,402,174

The estimated fair value of loans and deposits is determined using the amortized cost method 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 investments 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 \$10.1 million (2005 – \$22.4 million) invested in AGF mutual funds.

The fair values of the Trust Company derivative transactions are disclosed in Note 8 and Note 11.

Note 13. Limited Partnership Financings

Selling commissions paid on certain sales of mutual fund securities of the AGF Funds made on a DSC basis ('DSC securities') have been financed by limited partnerships held by third party investors. Up to November 30, 2006, 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 2006 was \$0.6 million (2005 – \$0.7 million). As at November 30, 2006, the net asset value of DSC securities financed by the limited partnerships was \$1.6 billion (2005 – \$1.7 billion). It is the Company's intention to recommend the dissolution of certain of these partnerships. Refer to note 25 – Subsequent events.

Note 14. Income Taxes

(a) The Company's effective income tax rate for continuing operations is comprised as follows:

Years ended November 30	2006	2005
Canadian corporate tax rate	35.9%	35.9%
Changes in future federal and provincial income tax rates	(14.1)	–
Rate differential on earnings of subsidiaries	(11.3)	(10.4)
Tax benefit of losses of foreign subsidiaries	–	1.3
Amortization of customer contracts and relationships	1.1	1.0
Tax-exempt investment income	(0.9)	(1.8)
Other	(0.9)	2.5
Effective income tax rate	9.8%	28.5%

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

November 30	2006	2005
Future income tax liability		
Deferred sales commissions	\$ (92,405)	\$ (98,280)
Deferred revenue	518	2,280
Undepreciated capital cost in excess of carrying values	2,043	1,109
Loss carryforwards	1,484	37
Expenses deductible or gain to be recognized in future periods	542	1,605
Provision for loan losses	3,057	807
Securitization of RSP loans	(5,046)	–
Deferred charges	(4,430)	(951)
Goodwill and management contracts	(136,259)	(150,990)
Investments	(6)	2,113
Other	(559)	82
Future income tax liability	\$ (231,061)	\$ (242,188)

(c) As at November 30, 2006, certain subsidiaries of the Company have accumulated aggregate income tax losses of approximately \$21.4 million (2005 – \$18.1 million) that may be used to reduce taxable income in the future. These tax loss carry-forwards expire as follows:

\$4.2 million	2014 to 2026
\$17.2 million	no expiry date

The potential tax benefits of \$17.2 million of these losses have not been recognized in the consolidated financial statements.

(d) The 2006 federal budget announced on May 2, 2006 proposed to reduce the federal corporate income tax rate to 19% from 21% by January 1, 2010 and to eliminate the federal corporate surtax rate of 1.12% effective January 1, 2008. On June 6, 2006, these tax rate changes were considered to be substantively enacted. Consequently, during the year, the Company recognized a \$15.9 million reduction in future income tax liabilities.

Note 15. Capital Stock

(a) Authorized Capital

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

(b) Changes During the Year

The change in capital stock is summarized as follows:

	Number of shares issued	Amount (\$000's)
Class B Shares		
Balance, November 30, 2004	90,739,463	\$ 394,125
Issued on acquisition of a subsidiary (note 6)	159,696	2,600
Issued through dividend reinvestment plan	20,931	377
Stock options exercised (note 16)	648,015	7,739
Purchased for cancellation	(2,444,900)	(10,687)
Balance, November 30, 2005	89,123,205	\$ 394,154
Issued on acquisition of a subsidiary (note 6)	129,601	2,600
Issued through dividend reinvestment plan	87,891	1,985
Stock options exercised (note 16)	531,300	7,935
Purchased for cancellation	(700,000)	(3,108)
Balance, November 30, 2006	89,171,997	\$ 403,566
Class A Shares		
Balance, November 30, 2006 and 2005	57,600	–
Total stated capital, November 30, 2006 (2005 – \$394,154)		\$ 403,566

(c) Class B Shares Purchased for Cancellation

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B Shares through the facilities of the Toronto Stock Exchange. Present approval for such purchases extends through to February 17, 2007. Under this issuer bid, the Company may purchase up to 10% of the public float outstanding on the date of the receipt

of regulatory approval or up to 7,214,698 shares. During the year ended November 30, 2006, 700,000 (2005 – 2,444,900) Class B Shares were purchased at a cost of \$15.9 million (2005 – \$42.5 million) and the excess paid of \$12.8 million (2005 – \$31.8 million) over the book value of the shares purchased for cancellation was charged to retained earnings.

Note 16. 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 5,421,773 (2005 – 5,953,073) Class B Shares could have been granted as at November 30, 2006. The stock options are issued at a price not less than the market price of the Class B Shares immediately prior to the grant date. Stock options are vested to the extent of 25% to 33% of the individual's entitlement per annum or, in some instances 100% vest at the end of the term of the option.

The change in stock options during 2005 and 2006 is summarized as follows:

	Number of options	Weighted average exercise price
Class B Share Options		
Balance outstanding, November 30, 2004	3,566,604	\$ 17.86
Options granted	2,063,000	\$ 18.25
Options cancelled	(199,714)	\$ 20.27
Options exercised	(648,015)	\$ 11.94
Balance outstanding, November 30, 2005	4,781,875	\$ 18.72
Options granted	730,000	\$ 25.14
Options cancelled	(711,492)	\$ 20.88
Options exercised	(531,300)	\$ 14.98
Balance outstanding, November 30, 2006	4,269,083	\$ 19.93

The following summarizes information about stock options outstanding as at November 30, 2006:

Range of exercise prices	Number of options outstanding	Weighted average remaining life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$11.27 to \$16.87	580,000	3.4 years	\$ 15.32	488,334	\$ 15.04
\$17.06 to \$17.36	809,000	5.2	\$ 17.13	193,500	\$ 17.14
\$17.87 to \$18.94	612,583	5.4	\$ 18.72	273,749	\$ 18.50
\$18.95 to \$19.38	970,000	5.9	\$ 19.38	242,500	\$ 19.38
\$19.39 to \$27.73	1,297,500	4.8	\$ 24.73	567,500	\$ 24.20
	4,269,083	5.0	\$ 19.93	1,765,583	\$ 19.34

The outstanding stock options have expiry dates ranging from December 2006 to December 2013. Options granted prior to 2005 require the Company or employee to meet performance criteria for certain of the options to vest.

During 2006 the Company granted 730,000 options (2005 – 2,063,000) and recorded \$4.6 million (2005 – \$4.1 million) in compensation expense and contributed surplus in respect of the options granted since December 31, 2002. The fair value of options granted during 2006 has been estimated at between \$5.63 and \$7.16 per share (2005 – between \$3.70 and \$4.30 per share) using the Black-Scholes option-pricing model. The following ranges of assumptions were used to determine the fair value of the options on the date of grant:

Risk-free interest rate	3.94% – 4.26%
Expected dividend yield	2.83% – 3.30%
Expected share price volatility	29.85% – 30.15%
Option term	6.7 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 Class B Shares. The Company matches up to 60% of the amounts contributed by employees. All contributions are used by the plan trustee to purchase Class B Shares on the open market. Shares purchased with Company contributions vest immediately. The Company's contributions are recorded in payroll costs and amounted to \$0.7 million for the year ended November 30, 2006 (2005 – \$0.7 million).

(c) Restricted Share Unit Plan

Under the Company's restricted share unit ('RSU') plan, certain senior employees are issued RSUs. These units vest three years from the grant date. On the vesting date, the Company will redeem all of the participants' RSUs in cash equal to the value of one Class B Share for each RSU.

At November 30, 2006, 75,686 RSUs were outstanding to employees of the Company. Compensation expense for the year ended November 30, 2006 related to these RSUs was \$0.2 million (2005 – nil).

(d) Performance Share Unit Plan

Effective November 30, 2006, the Company established a performance share unit ('PSU') plan, which enables certain senior employees of AGF to participate in the growth and development of AGF by providing such employees with the opportunity, through PSUs, to acquire a proprietary interest in AGF. Under the terms of the plan, PSUs are issued to the participant and the units issued vest three years from the grant date subject to certain performance criteria being met.

On the vesting date, AGF, subject to the performance criteria being met, will redeem all of the participants' PSUs in cash equal to the value of one Class B Share for each PSU.

At November 30, 2006, 67,305 PSUs were outstanding to employees of the Company. The PSUs were issued on November 30, 2006 and accordingly no compensation expense has been recorded for the year ended November 30, 2006.

Note 17. Earnings Per Share

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

Years ended November 30	2006	2005
Numerator (\$000's)		
Net income from continuing operations for the year	\$ 102,235	\$ 72,712
Gain on early retirement of debt, net of income taxes	\$ 13,309	\$ –
(Loss) gain on sale of discontinued operations	(2,887)	15,617
Net earnings from discontinued operations, net of income taxes	–	3,543
Net income for the year	\$ 112,657	\$ 91,872
Denominator		
Weighted average number of shares – basic	89,105,541	90,296,830
Dilutive effect of employee stock options	734,510	363,139
Weighted average number of shares – diluted	89,840,051	90,659,969
Earnings per share		
Basic from continuing operations	\$ 1.15	\$ 0.81
Diluted from continuing operations	\$ 1.14	\$ 0.80
Basic	\$ 1.26	\$ 1.02
Diluted	\$ 1.25	\$ 1.01

Note 18. 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 2006 and 2005 were from the AGF Funds. As at November 30, 2006, the Company had \$35.7 million (2005 – \$14.8 million) receivable from the AGF Funds. The Company also acts as trustee for the AGF Funds that are mutual fund trusts.

Up until the sale of Unisen to CitiFinancial on October 3, 2005, the Company directly provided unitholder services to the funds and was compensated for such services. These services were provided in the normal course of operations and were recorded at the amount of consideration agreed to by the parties. Concurrent with the sale of Unisen, the Company entered into a new 10 year services agreement with Citigroup Global Transaction Services. The aggregate unitholder services costs absorbed and management and advisory fees waived by the Company during the year on behalf of these service agreements were approximately \$15.7 million (2005 – \$10.0 million).

Note 19. Related Party Transactions

The Company has entered into certain transactions with entities or senior officers who are directors of the Company. During 2006, total amounts paid by the Company to these related parties aggregated \$0.1 million (2005 – \$0.1 million).

Note 20. Supplemental Disclosure of Cash Flow Information

Interest payments in 2006 were \$79.4 million (2005 – \$33.9 million). Income tax payments in 2006 were \$48.1 million (2005 – \$26.2 million).

Note 21. Segment Information

AGF has three reportable segments: Investment Management Operations, Trust Company Operations and Other. The Investment Management segment provides investment management and advisory services and is responsible for the management and distribution of the AGF investment products. AGF Trust Company offers a wide range of trust services including GICs, real estate secured and investment loans and Home Equity Line of Credit loans. In prior periods the Company had reported a fund administration segment, which consisted of Unisen Holdings Inc. ('Unisen') and Investmaster Group Limited ('Investmaster'). As a result of the sale of Unisen (see Note 3) Unisen's operations have been reported as discontinued operations. The results of Investmaster a supplier of software products and services to the private wealth management industry and the results of the Company's 30.7% interest in S&WHL, an independent private client investment management, financial advisory and accounting group based in the U.K. are included in the other segment as these entities do not meet the criteria for separate disclosure. AGF's reportable segments are strategic business units that offer different products and services.

The results of the reportable segments are based upon the internal financial reporting systems of AGF. The accounting policies used in these segments are generally consistent with those described in the summary of significant accounting policies detailed in Note 1.

Notes to Consolidated Financial Statements

(\$000's) For the year ended November 30, 2006	Investment Management Operations	Trust Company Operations	Other	Inter-segment Elimination	Total
External revenue	\$ 535,897	\$ 147,901	\$ 19,683	\$ –	\$ 703,481
Intersegment revenue	1,115	1,067	–	(2,182)	–
Segment revenue	537,012	148,968	19,683	(2,182)	703,481
Operating expenses	326,261	116,836	11,615	(2,182)	452,530
Interest expense	–	–	2,861	–	2,861
Amortization	130,730	1,117	2,927	–	134,774
Segment income (loss) from continuing operations before taxes	\$ 80,021	\$ 31,015	\$ 2,280	\$ –	\$ 113,316
Included in external revenue					
Interest revenue	\$ 967	\$ 131,351	\$ –	\$ –	\$ 132,318
Total assets	\$ 1,040,002	\$ 2,760,071	\$ 119,695	\$ –	\$ 3,919,768

(\$000's) For the year ended November 30, 2005	Investment Management Operations	Trust Company Operations	Other	Inter-segment Elimination	Total
External revenue	\$ 509,632	\$ 67,302	\$ 17,512	\$ –	\$ 594,446
Intersegment revenue	15	1,100	–	(1,115)	–
Segment revenue	509,647	68,402	17,512	(1,115)	594,446
Operating expenses	279,814	53,918	16,991	(1,115)	349,608
Interest expense	–	–	4,095	–	4,095
Amortization	134,724	987	3,302	–	139,013
Segment income (loss) from continuing operations before taxes	\$ 95,109	\$ 13,497	\$ (6,876)	\$ –	\$ 101,730
Included in external revenue					
Interest revenue	\$ 1,171	\$ 64,919	\$ –	\$ –	\$ 66,090
Total assets	\$ 1,052,830	\$ 1,545,941	\$ 110,896	\$ –	\$ 2,709,667

Note 22. Commitments

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

2007	5,372
2008	2,596
2009	2,236
2010	2,152
2011	2,015
Thereafter	10,303

AGF Trust Company has outstanding mortgage commitments at rates of interest prevailing at the time the commitments were issued of \$144.7 million as at November 30, 2006 (2005 – \$127.2 million). Any interest rate commitment has a term of less than 60 days.

Concurrent with the sale of Unisen to CitiFinancial, AGF has capped the management expense ratio on all of the AGF funds for three years at the lower of the actual levels reported in 2004 and 2005.

Note 23. 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.

The Company is committed for a ten-year period to reimburse CitiFinancial should CitiFinancial's annual revenues derived from AGF fund administration services fall below a pre-determined level. The Company is not able to reasonably estimate this amount, if any, and does not anticipate this amount to be significant.

Note 24. Contingent Liabilities

There are certain claims and potential claims against the Company. None of these claims or potential claims are expected to have a material adverse effect on the consolidated financial position of the Company.

Note 25. Subsequent Events

On December 1, 2006, the Company acquired approximately 80% of Highstreet Partners Limited, which wholly owns Highstreet Asset Management Inc., an investment counsel firm based in London, Ontario. The purchase price is based on actual results for the period ending December 31, 2006 and consideration will be paid over a three-year period. The purchase consideration is payable by a combination of cash and the issuance of Class B Shares. On December 1, 2006, AGF made a payment of \$14.8 million in cash and \$4.4 million in shares.

In 2007, it is the Company's intention to recommend the dissolution of the following Limited Partnerships ('LPs'): AGF Limited Partnership 1990, AGF Limited Partnership 1991, 20/20 Group 1990 Private Limited Partnership, 20/20 Group 1990 Limited Partnership and 20/20 Group 1992 Limited Partnership. For all of these LPs, except for 20/20 Group 1990 Private Limited Partnership, the dissolution is subject to approval by the respective limited partners. As part of the LP dissolution process, the Company will either purchase the future distribution fees remaining payable by the Company to the LPs or purchase the outstanding units for total cash consideration of \$3.1 million. In 2006, distributions of \$1.0 million were made to these LPs.

Consolidated 10-Year Review

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Operations (\$000's)										
Total revenue										
(continuing operations)	703,481	594,446	585,425	546,602	654,103	639,994	508,681	356,703	288,822	236,759
Net income	112,657	91,872	77,287	44,016	119,839	163,754	95,931	61,710	48,777	40,489
Dividends	61,521	50,522	37,474	27,150	22,967	19,577	14,092	11,642	9,970	6,491
Financial position (\$000's)										
Working capital (deficit)	(414,827)	(35,891)	52,019	59,547	95,287	(9,950)	(86,692)	55,348	40,186	30,903
Long-term debt	0	17,364	68,292	112,192	225,403	165,481	278,051	72,048	81,422	38,000
Shareholders' equity	979,771	918,326	914,366	903,360	887,566	764,707	480,091	284,244	233,383	192,173
Return on equity	11.5%	10.0%	8.5%	4.9%	14.5%	26.3%	25.1%	23.8%	22.9%	26.3%
Per share (\$)										
Net income – basic	1.26	1.02	0.85	0.48	1.34	1.84	1.23	0.80	0.64	0.55
Dividends	0.69	0.56	0.41	0.295	0.255	0.22	0.18	0.15	0.13	0.09
Book value										
(continuing operations)	10.99	10.30	10.08	9.79	9.74	8.56	5.78	3.64	3.03	2.53

Board of Directors

AGF Management Limited and AGF Trust Company

Douglas L. Derry, FCA⁴
W. Robert Farquharson, CFA
Blake C. Goldring, CFA^{1,2}
Walter A. Keyser
David A. King
Donald G. Lang⁵
William Morneau, MBA⁷
Winthrop H. Smith, Jr., MBA⁸

Mutual Fund Corporations and Trusts

Philippe Casgrain, Q.C.
W. Robert Farquharson, CFA
C. Warren Goldring
David Hale
Martin Hubbes, CFA
H. Ian Macdonald
Joseph E. Martin
John B. Newman^{3,4}

AGF Asset Management Asia Ltd.

W. Robert Farquharson, CFA³
Blake C. Goldring, CFA
Dr. Soo Ann Lee
Yong Siang Lee
Eng Hock Ong, CFA

AGF International Advisors Company Limited

John L. Arnold
Joseph D. Casey
Viscount Cobham
W. Robert Farquharson, CFA³
Blake C. Goldring, CFA
Brian S. Perry
Ian Steers

1 Chairman of the Board
of AGF Management Limited

2 Chairman of the Board
of AGF Trust Company

3 Chairman of the Board

4 Chairman of the Audit Committee

5 Chairman of the Nominating and Corporate
Governance Committee
of AGF Management Limited

6 Chairman of the Conduct Review
Committee of AGF Trust Company

7 Chairman of the Compensation Committee
of AGF Management Limited

8 Lead Director

Executive Officers

Blake C. Goldring, CFA
Chairman & Chief Executive Officer

W. Robert Farquharson, CFA
Vice-Chairman

Randy G. Ambrosie
President, AGF Funds Inc.

Robert Badun, MBA
President, AGF Private Investment
Management Limited

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

Judy G. Goldring, LL.B
Senior Vice-President &
General Counsel

Gregory J. Henderson, CA
Senior Vice-President &
Chief Financial Officer

Martin Hubbes, CFA
Executive Vice-President &
Chief Investment Officer,
AGF Funds Inc.

Beatrice L. Ip
Senior Vice-President &
Corporate Secretary

Portfolio Managers

W. Robert Farquharson, CFA
Vice-Chairman

Martin Hubbes, CFA
Executive Vice-President &
Chief Investment Officer

Jean L. Charbonneau
Senior Vice-President

Anthony Genua, CFA
Senior Vice-President

G. Keith Graham, CFA
Senior Vice-President

M. Christine Hughes, CFA
Senior Vice-President

Stephen W. Way, CFA
Senior Vice-President

Charles F. Oliver, CFA
Senior Vice-President

A. Patricia Perez-Coutts, CFA
Vice-President

Tristan M. Sones, CFA
Vice-President

Zoran Vojvodic, CFA
Vice-President

Jamie J. Horvat, CFA
Portfolio Manager

AGF Corporate Directory

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Registrar and Transfer Agents

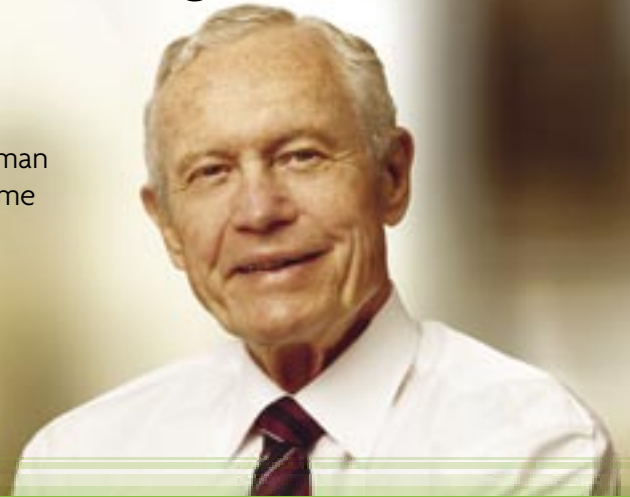
Computershare Trust
Company of Canada
1 800 564-6253

Stock Exchange Listing

Toronto Stock Exchange
AGF.B

TRIBUTE to Warren Goldring

C. Warren Goldring, our co-founder, retired as chairman of the board in May 2006. In recognition of his lifetime contribution to our company, our industry and our country, the board, management and staff together wish to recognize Warren for all he has done for us and our stakeholders over the past 50 years.



During your five decades with AGF, you have consistently demonstrated outstanding commitment and great vision, leading us by example and inspiring those around you to greater success.

Your vision forever changed the face of investing in our country. In 1957, you made it possible for Canadians of all means to enter global markets with confidence. Through the launch of American Growth Fund, which ultimately led to the creation of AGF Management, you became a pioneer at home and a trailblazer on the world stage of investing.

You didn't stop there. Under your leadership, AGF established a well-deserved reputation for innovation, leading investment performance and global insight. The introduction of Canada's first mutual fund to invest in Japan in 1969 allowed Canadians to own a share in what became a world economic power just a few short years later.

Again, you did not stop there. On your watch, AGF launched many 'firsts', such as:

- › the first Canadian money market fund;
- › the first global government bond fund;
- › the first China equity fund in Canada;
- › the first asset allocation service in Canada.

Your leadership has also been defined by a deep respect for people. Growing up in a household led by two school-teachers, you learned at a young age the value of higher education, and throughout your business career you personally and corporately supported the development of Canada's future leaders – at home and abroad. Over the years you

worked tirelessly to support many activities at the University of Toronto and the Canada Institute at the Woodrow Wilson Center in Washington, D.C.

You have also made outstanding contributions to Canada itself, serving as the president of the Investment Funds Institute of Canada, on the Attorney General's Committee on Securities Legislation, and as the founding director and co-chairman of Operation Dialogue, a charitable organization designed to inspire passionate discussion among Canadians about what it means to be Canadian.

Warren, under your leadership, our company, our valued stakeholders and our country have prospered in many ways. On behalf of everyone you have touched, from the one million investors who have entrusted their wealth to AGF, to our valued partners and 700 employees around the world, we acknowledge your extraordinary efforts with gratitude and respect. Today and in the future, we will strive to live up to the enormous legacy you have created by following your vision.

Warren Goldring
AGF Boardroom, 1962



AGF CELEBRATES **50** YEARS | MODERN THINKING
CLASSIC PERFORMANCE

For **50 years**, we've been building on our commitment
to provide Canadians with premier **investment solutions**
across the wealth continuum and the globe.



What are you doing after work?®

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