

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'.

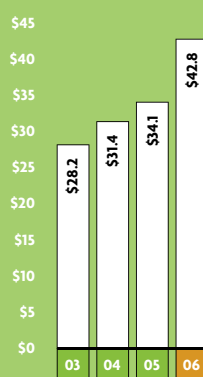
2006: A year of continued strong results

- 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.

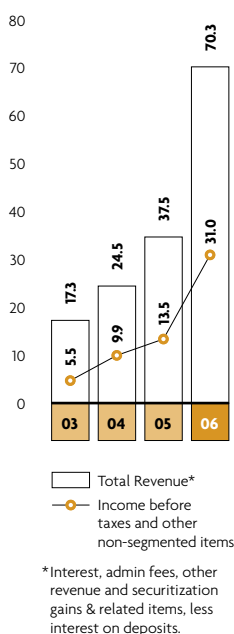
Within our core retail mutual funds business, we reached a level of net sales – an indicator of unitholder confidence and satisfaction – that made us the best performing non-bank mutual fund firm in Canada. In November alone, we reported gross sales in excess of half a billion dollars, and net sales 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.

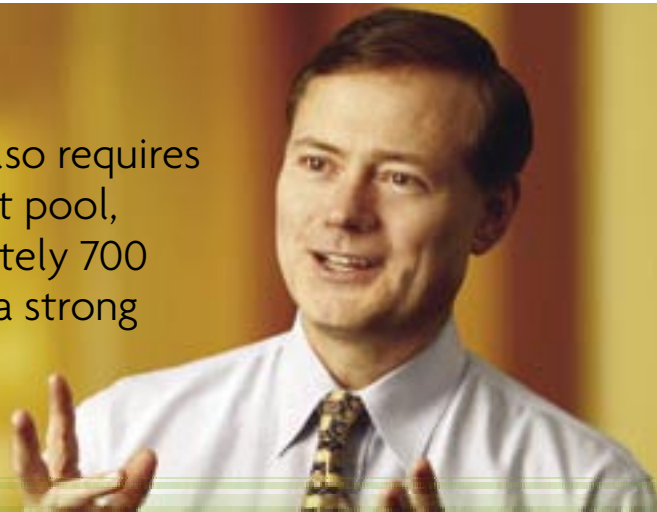
We take satisfaction from these results and developments because we know that continuing our tradition of excellence will benefit all of our valued stakeholders.

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.

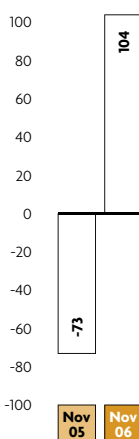
We are proud that we delivered these results while maintaining a strong financial position from which to continue to fund growth and drive future results. The prudent management which has resulted in increasing shareholder value has been accomplished by maintaining a strong board of directors. In 2006 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.”

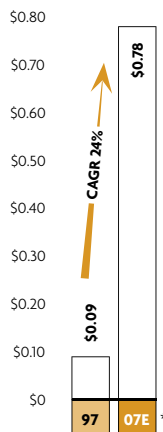
Greg Henderson, CA
Chief Financial Officer

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.

Dividends and share
buybacks were

65%

of free cash flow

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.

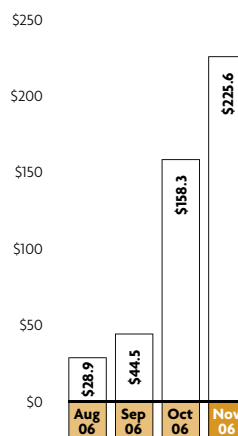
At the 2006 Canadian Investment Awards, AGF won top honours for five mutual funds and receive the prestigious Advisor’s Choice Favourite Investment Fund Company of the Year Award.

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.

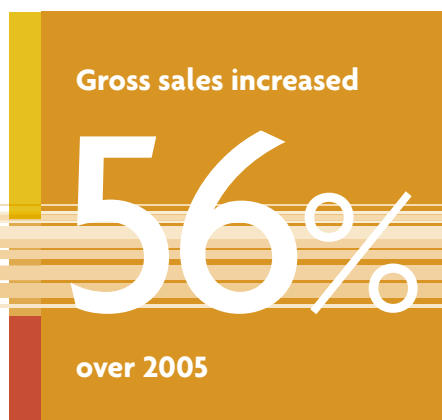
Outlook

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.

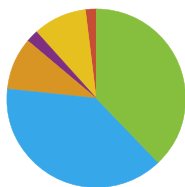
In 2006, we added another key player to our team with the addition of Jean Charbonneau as lead portfolio manager for AGF Global Government Bond Fund. As a member of the fixed income team – which includes Tristan Sones and Tom Nakamura – Jean also co-manages the AGF Canadian Bond Fund.

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.

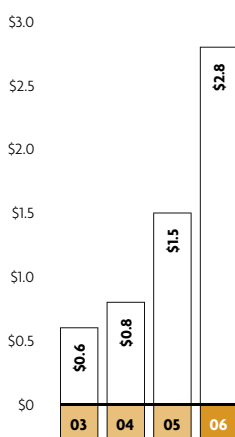
Committed to Growing

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.

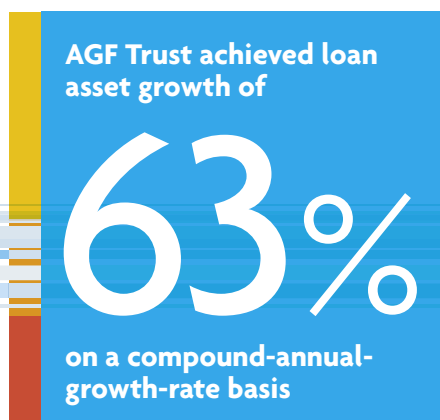
Our primary focus in 2007 is to continue investing in our service delivery and improving our clients' experience. Ultimately, this is what differentiates us today, and will do so long into the future.

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.

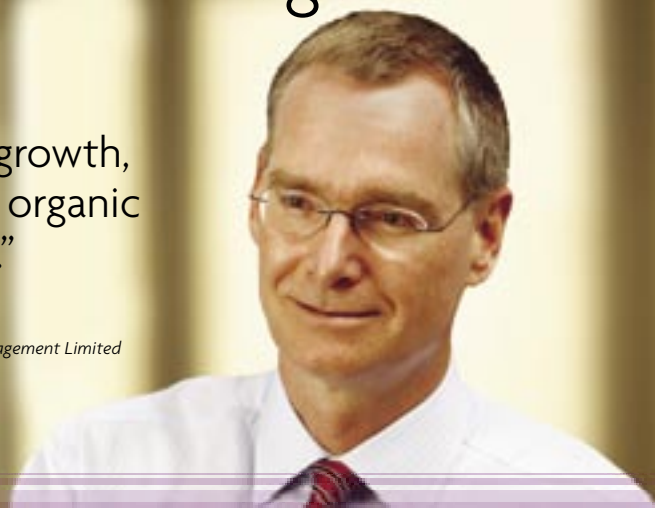


AGF Private Investment Management

“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.

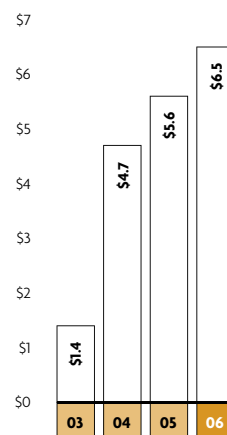
As one of the founders and as CEO of Highstreet, I was excited to join forces with AGF. Our combination presents a compelling opportunity to build a best-in-class business, focused on serving the needs of our clients.

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

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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