

# AGF Master Limited Partnership

2008 ANNUAL REPORT



What are you doing after work?

# AGF Master Limited Partnership

## Market Value of Distributed Securities

(Unaudited)

As at December 31, 2008

	Market Value (in thousands)		Market Value (in thousands)
<b>CANADIAN EQUITY FUNDS</b>		<b>CANADIAN FIXED INCOME FUNDS</b>	
AGF Canadian Stock Fund	\$ 76,990	AGF Canadian Bond Fund	\$ 23,238
AGF Canadian Large Cap Dividend Fund Class	72,231	AGF Canadian Conservative Income Fund	9,700
AGF Canadian Growth Equity Fund Limited	48,554	AGF Canadian Money Market Fund	9,181
AGF Canadian Small Cap Fund	8,651	AGF Canadian High Yield Bond Fund	941
AGF Dividend Income Fund	1,569		<u>43,060</u>
AGF Canadian Value Fund	1,155		
AGF Canada Class	877	<b>SPECIALTY EQUITY FUNDS</b>	
AGF Monthly High Income Fund	639	AGF Canadian Resources Fund Limited	12,779
AGF Canadian Large Cap Dividend Fund	501	AGF Precious Metals Fund	3,407
AGF Large Cap Dividend Class	262	AGF Global Resources Class	301
AGF Diversified Dividend Income Fund	246	AGF Global Health Sciences Class	318
AGF Canadian All Cap Equity Fund	91	AGF Global Financial Services Class	113
AGF Canadian Stock Class	50	AGF Global Real Estate Equity Class	93
	<u>211,816</u>	AGF Global Technology Class	81
			<u>17,092</u>
<b>INTERNATIONAL EQUITY FUNDS</b>		<b>U.S. EQUITY FUNDS</b>	
AGF Global Value Fund	33,409	AGF American Growth Class	5,538
AGF European Equity Class	17,630	AGF Aggressive U.S. Growth Fund	3,937
AGF International Stock Class	10,472	AGF Special U.S. Class	713
AGF Asian Growth Class	5,912	AGF U.S. Value Class	145
AGF Emerging Markets Fund	3,034	AGF U.S. Risk Managed Class	26
AGF Global Equity Fund	2,906		<u>10,359</u>
AGF Japan Class	2,114		
AGF Global Equity Class	1,993	<b>ELEMENTS PORTFOLIOS</b>	
AGF China Focus Class	1,918	AGF Elements Balanced Portfolio	5,614
AGF Global Perspective Class	1,615	AGF Elements Growth Portfolio	2,325
AGF Aggressive Global Stock Fund	1,242	AGF Elements Global Portfolio	1,698
AGF Global Value Class	395	AGF Elements Conservative Portfolio	667
AGF Global Dividend Fund	63	AGF Elements Yield Portfolio	308
AGF World Opportunities Fund	6		<u>10,612</u>
	<u>82,709</u>		
<b>CANADIAN BALANCED AND ASSET ALLOCATION FUNDS</b>		<b>INTERNATIONAL FIXED INCOME FUNDS</b>	
AGF Canadian Balanced Fund	37,785	AGF Global Government Bond Fund	5,348
AGF Canadian Value Balanced Fund	27,256	AGF Short-Term Income Class	946
	<u>65,041</u>	AGF Global High Yield Bond Fund	570
			<u>6,864</u>
<b>INTERNATIONAL BALANCED AND ASSET ALLOCATION FUND</b>			
AGF World Balanced Fund	11,461		
		<b>TOTAL DISTRIBUTED SECURITIES</b>	<b>\$ <u>459,014</u></b>

# AGF Master Limited Partnership

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

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For the years ended December 31, 2008 and December 31, 2007

Management's Discussion and Analysis ("MD&A") presents an analysis of the financial condition of AGF Master Limited Partnership ("Master LP") as at December 31, 2008 compared with December 31, 2007, and the results of operations for the year ended December 31, 2008 compared with the corresponding period of 2007. This discussion should be read in conjunction with our audited financial statements and notes for 2008. The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Certain figures are rounded to the nearest two decimal places and all dollar amounts are in Canadian dollars.

The MD&A includes forward-looking statements about Master LP. 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. The MD&A contains forward-looking statements that are based on current expectations and projections about future events and are inherently subject to, among other things, risks and uncertainties beyond Master LP's control. These risks and uncertainties include economic conditions, market fluctuations, interest rate and foreign exchange movements, political events, regulatory change and competitive developments. 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. Actual results could differ materially from those contemplated by the forward-looking statements.

### **FORMATION AND BUSINESS OF AGF MASTER LIMITED PARTNERSHIP**

Master LP was formed through the mergers of eleven AGF and 20/20 limited partnerships (the "Merging Partnerships").

The Merging Partnerships were formed for the purpose of arranging for the distribution of securities of certain of the AGF and 20/20 mutual funds, which were sold on a contingent deferred sales charge basis ("Distributed Securities"). The Merging Partnerships paid selling commissions to registered dealers ranging from 4% to 6% of the purchase price of such securities.

As at December 31, 2008, Master LP has total issued and outstanding units of 8,568,159. These units of Master LP are listed for trading on the Toronto Stock Exchange (the "Exchange") under the symbol AFP.UN. The units also qualify for investments by registered tax plans such as RSPs and RIFs.

### **REVENUE**

Master LP's primary source of revenue is distribution fees earned from the Distributed Securities to which it has distribution rights. The future stream of revenues is a function of the market value of these assets and the rate and timing of the redemptions of the underlying assets.

The redemption fee schedule applicable to the Distributed Securities has expired and the Master LP no longer receives any redemption fee revenue.

# AGF Master Limited Partnership

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

The following table illustrates the breakdown of distribution fee revenue and interest revenue for the years ended December 31, 2008 and December 31, 2007, respectively:

Years ended December 31	2008	2007	% Change
Distribution fees	\$ 3,361,169	\$ 5,009,214	(32.9)
Interest	65,011	132,515	(50.9)
<b>Total</b>	<b>\$ 3,426,180</b>	<b>\$ 5,141,729</b>	<b>(33.4)</b>

### DISTRIBUTION FEES

Master LP receives a monthly distribution fee calculated at annual rates ranging from 0.50% to 0.90% of the net asset value of the Distributed Securities which remain outstanding. The net asset value of Distributed Securities is primarily affected by the market performance and redemptions of Distributed Securities. Distribution fees accounted for 98.1% and 97.4% of Master LP's total revenue in the years 2008 and 2007, respectively.

Distribution fees amounted to \$3.4 million in 2008 as compared to \$5.0 million in 2007. The decrease of 32.9% in distribution fees was primarily attributable to the decline in net asset value of Distributed Securities from \$0.9 billion as at December 31, 2007 to \$0.5 billion as at December 31, 2008.

The following is a summary of the changes in Distributed Securities for 2008 and 2007:

(Unaudited)	(in thousands)	
Years ended December 31	2008	2007
Market value of Distributed Securities, beginning of year	\$ 853,090	\$ 1,027,720
Change in market value of Distributed Securities, including reinvested distributions	(279,429)	19,617
Expiration of distribution fees	-	(6,866)
Redemption of Distributed Securities	(114,647)	(187,381)
<b>Market value of Distributed Securities, end of year</b>	<b>\$ 459,014</b>	<b>\$ 853,090</b>

The 2008 annual redemption rate based on the market value of Distributed Securities at the beginning of the year was 13.4% compared to 18.2% in 2007. Redemptions of \$114.6 million and the decrease in market value of Distributed Securities of \$279.5 million accounted for the decline in the value of Distributed Securities during 2008.

### DISTRIBUTED SECURITIES COMPOSITION

The composition of Distributed Securities as at December 31, 2008 and 2007 are shown in the table on page 4. The relative weighting of each asset class will change over time, based on performance, redemptions and unitholder switches between funds.

# AGF Master Limited Partnership Management's Discussion and Analysis of Financial Condition and Results of Operations

## Composition of Distributed Securities based on market value as at December 31:

(Unaudited)	2008	2007
	%	%
Canadian Equity Funds	46	48
International Equity Funds	18	21
Canadian Balanced and Asset Allocation Funds	14	12
Canadian Fixed Income Funds	10	7
International Fixed Income Funds and Others	10	10
U.S. Equity Funds	2	2
<b>Total</b>	<b>100</b>	<b>100</b>

## REVENUE TERMINATION DATES

Master LP is entitled to the same revenue streams, with the same termination dates, as the Merging Partnerships. The following table illustrates the expiry date applicable to the various pools of Distributed Securities in respect of which Master LP has the right to receive distribution fees:

Partnership	Distributed Securities (Market Value as at December 31, 2008) (Unaudited) (in thousands)	Annual Distribution Fee Rate	Distribution Fee Expiry Date (December 31)
Sunset America	\$ 4,588	0.85%	2017
20/20 1989 LP	1,430	0.90%	2017
20/20 1991 LP	15,035	0.65%	2017
AGF LP 1993	77,267	0.50%	2008
AGF LP 1994	75,403	0.50%	2009
AGF LP 1995	38,350	0.51%	2010
AGF LP No. 8	12,952	0.56%	2011
AGF LP 1996	99,526	0.55%	2011
AGF LP 1997	134,463	0.53%	2012
	<b>\$ 459,014</b>		

Master LP will continue until March 31, 2018 unless procedures as specified in the Master LP partnership agreement for the dissolution of Master LP are commenced earlier upon the occurrence of certain events stated in the Master LP partnership agreement.

## INTEREST

Interest is earned on the regular bank account held by the Master LP in 2008 was \$65,011 as compared to \$132,515 in 2007. The decrease of was primarily due to the decrease of distribution fee revenue earned in 2008.

As at December 31, 2008, cash held by Master LP amounted to \$3.5 million as compared to \$4.8 million at December 31, 2007.

# AGF Master Limited Partnership

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

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### **OPERATING EXPENSES**

Total operating expenses for the year ended December 31, 2008 were \$289,063, compared to \$383,354 in 2007. The decrease by 24.6% was attributable to the over-all decrease in operating expenses of Master LP due to the reduction in distribution fee revenues in 2008.

### **FINANCIAL CONDITION AND LIQUIDITY**

Total assets were \$3.7 million as at December 31, 2008 as compared to \$5.2 million as at December 31, 2007. Assets as at December 31, 2008 were used primarily to finance the annual cash distributions of \$0.37 per limited partnership unit paid on January 30, 2009 to limited partners of record on December 31, 2008.

The total amount of uncashed distribution cheques included in cash and distributions payable was \$335,904 as at December 31, 2008 which remain unchanged compared a year ago.

The Merging Partnerships were formed to finance selling commissions during a fixed period of time, after which the Merging Partnerships collect the fees to which they are entitled with no significant ongoing financial obligation other than the ordinary operating expenses. Master LP distributes its income to limited partners on an annual basis and does not retain permanent investment assets.

### **FINANCIAL INSTRUMENTS**

Master LP's financial instruments consist of cash and term deposits, distribution fees and interest receivable, accounts payable and accrued liabilities, and distributions payable.

### **CASH DISTRIBUTION AND TAXABLE INCOME**

Master LP has adopted an annual distribution policy as a result of the adverse tax consequences which would have arisen for at least a significant majority of the limited partners who participated in the merger if distributions were made more frequently than annually. Master LP may reconsider the distribution frequency if changes in tax laws have the effect of eliminating such adverse tax consequences.

Master LP itself is not directly subject to income tax. Instead, Master LP's income or loss for tax purposes is calculated and flowed through to limited partners.

Cash distributions for 2008 were \$0.37 per limited partnership unit and \$0.56 per limited partnership unit in 2007. In January 2009, Master LP paid cash distributions to limited partners of record on December 31, 2008. Cash distributions per limited partnership unit for the three most recent years are shown on page 8.

Taxable income for 2008 was \$0.37 per limited partnership unit and \$0.56 per limited partnership unit in 2007.

### **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. A summary of significant accounting policies is presented in note 2 to the financial statements.

# AGF Master Limited Partnership

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

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### RELATED PARTY TRANSACTIONS

AGF Partners No. Five Limited is the general partner and is responsible for the management of Master LP on a day-to-day basis. In consideration for its services, the general partner is entitled to 0.01% of the net distributable income of Master LP and will be reimbursed by Master LP for expenses incurred on behalf of Master LP. It also receives an administration fee as consideration for its management of the business and affairs of Master LP and has engaged AGF Management Limited ("AGF"), its parent company, to assist it in carrying out its management obligations to Master LP. These services are in the normal course of operations and are recorded at the amount of consideration agreed to by the parties. Administration fees for the year ended December 31, 2008 amounted to \$123,318 as compared to \$154,148 a year ago.

### OUTLOOK AND RISKS

Master LP's only source of future revenue is distribution fees since all the redemption fee schedules for the Distributed Securities expired at the end of 2004. Distribution fees are expected to continue to decline in the future as the level of Distributed Securities declines and Master LP distribution fee period expires. Distribution fees are impacted by the following risks:

#### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks which are currency risk, interest rate risk and other price risk.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Master LP is not exposed to significant interest rate risk.

The distribution fees earned by the Master LP were deposited with the bank and this cash balance is exposed to interest rate risk due to the interest rate volatility.

#### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Master LP is not exposed to significant currency risk arising from its financial instruments.

#### Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. Master LP is not exposed to other price risk however, is indirectly exposed to market risk based on its revenue earned from the market value of Distributed Securities.

#### Redemption Rate Risk

Each Distributed Security is subject to potential cash redemptions of redeemable units. The units of Distributed Security are issued and redeemed on demand at the option of the mutual fund investor at the then current Net Asset Value per unit of the Distributed Securities. The amount of distribution fees to be earned by Master LP will decrease as redemptions of Distributed Securities continue.

# AGF Master Limited Partnership

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

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### **Liquidity Risk**

Liquidity risk is defined as the risk that Master LP may not be able to settle or meet its obligation on time or at a reasonable price. Master LP manages its liquidity risk through maintaining sufficient cash deposits to pay its annual cash distributions through prompt collection of its earned distribution fees. Distributions payable are due within one month.

### **Credit Risk**

Credit risk is the potential of financial loss arising from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Master LP. The Master LP's over-all credit risk strategy and credit risk policy are developed, managed and controlled by the general partner in accordance with the Master LP's partnership agreement. The over-all risk strategy and credit risk policy are further refined through the use of policies, processes and internal controls in order to ensure that business activities are within the standards of risk tolerance levels. As at December 31, 2008, the financial assets of \$3.7 million, consisting of cash and term deposit of \$3.5 million and distribution fees and interest receivable of \$0.2 million were exposed to credit risk up to the maximum of their respective carrying value.

### **PARTNERS' EQUITY**

As at December 31, 2008, Master LP has total issued and outstanding units of 8,568,159. The units of Master LP may be transferred by a limited partner or his agent duly authorized in writing to any person in accordance with the provisions of the Master LP's partnership agreement. The units also qualify for investments by registered tax plans such as RSPs and RIFs. Limited partners are entitled to cash distribution when declared. The annual cash distribution is calculated is based on the Master LP's net income for the year.

### **CORPORATE GOVERNANCE**

Master LP's business operations are managed by the general partner, AGF Partners No. Five Limited, which is a wholly-owned subsidiary of AGF. The general partner carries out its duties and obligations pursuant to the terms of Master LP's partnership agreement. Master LP's principal source of revenue is the distribution fees in respect of the AGF mutual funds managed by AGF Funds Inc. which comprise the Distributed Securities.

Master LP is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The Board of Directors of the general partner has been charged with the oversight role to ensure the integrity and fair presentation of the reported information. Given the nature of the business, the general partner has determined that the corporate governance guidelines set out by the Exchange are not pertinent to Master LP's operations.

### **REGULATORY FILINGS**

Master LP's annual and interim financial reports, Annual Information Form ("AIF") and MD&As are available at the AGF website, [www.agf.com](http://www.agf.com) and at the Canadian Securities Administrators' website, [www.sedar.com](http://www.sedar.com).



# AGF Master Limited Partnership

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

### SELECTED QUARTERLY AND ANNUAL INFORMATION

(in thousands, except per unit amounts)

Year ended December 31, 2008	Total	Q4*	Q3*	Q2*	Q1*
Revenue	\$ 3,426.2	\$ 611.4	\$ 853.0	\$ 973.1	\$ 988.7
Net income for the period	3,137.1	547.7	778.6	900.6	910.2
Net income and cash distribution per limited partnership unit	0.37				
<b>Total assets</b>	<b>3,702.3</b>				

(in thousands, except per unit amounts)

Year ended December 31, 2007	Total	Q4*	Q3*	Q2*	Q1*
Revenue	\$ 5,141.7	\$ 1,202.1	\$ 1,256.1	\$ 1,319.2	\$ 1,364.3
Net income for the period	4,758.4	1,104.7	1,162.6	1,223.0	1,268.1
Net income and cash distribution per limited partnership unit	0.56				
<b>Total assets</b>	<b>5,224.4</b>				

(in thousands, except per unit amounts)

Year ended December 31, 2006	Total	Q4*	Q3*	Q2*	Q1*
Revenue	\$ 5,649.6	\$ 1,423.0	\$ 1,345.2	\$ 1,388.8	\$ 1,492.6
Net income for the period	5,210.8	1,320.4	1,231.2	1,275.7	1,383.5
Net income and cash distribution per limited partnership unit	0.61				
<b>Total assets</b>	<b>5,612.9</b>				

\*Unaudited

March 23, 2009

## **Auditors' Report**

### **To the Partners of AGF Master Limited Partnership**

We have audited the balance sheets of **AGF Master Limited Partnership** as at December 31, 2008 and 2007 and the statements of operations and deficit and cash flow for the years then ended. These financial statements are the responsibility of the general partner. Our responsibility is to express an opinion on these 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 financial statements present fairly, in all material respects, the financial position of the partnership as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

# AGF Master Limited Partnership Balance Sheets

As at December 31	2008	2007
<b>Assets</b>		
Current Assets:		
Cash and term-deposit	\$ 3,506,776	\$ 4,847,041
Distribution fees and interest receivable	195,546	377,343
<b>Total Assets</b>	<b>\$ 3,702,322</b>	<b>\$ 5,224,384</b>
<b>Liabilities and Partners' Equity</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 229,302	\$ 130,105
Distributions payable (note 6)	3,473,020	5,094,279
	<b>3,702,322</b>	<b>5,224,384</b>
Partners' Equity:		
General partner	2,510	2,510
Limited partners – 8,568,159 units	209,793,390	209,793,390
Issue and merger expenses	(18,069,356)	(18,069,356)
	191,726,544	191,726,544
Deficit	(191,726,544)	(191,726,544)
	-	-
<b>Total Liabilities and Partners' Equity</b>	<b>\$ 3,702,322</b>	<b>\$ 5,224,384</b>

*The accompanying notes are an integral part of the financial statements.*

Approved by the Board of Directors of  
AGF Partners No. Five Limited, as General Partner

<W. Robert Farquharson>  
W. Robert Farquharson, Director

<Greg Henderson>  
Greg Henderson, Director

# AGF Master Limited Partnership

## Statements of Operations and Deficit

For the years ended December 31	2008	2007
<b>Operations</b>		
Revenue:		
Distribution fees	\$ 3,361,169	\$ 5,009,214
Interest	65,011	132,515
	<u>3,426,180</u>	<u>5,141,729</u>
Expenses:		
Administration fees (note 5)	123,318	154,148
Audit, legal and filing fees	63,374	100,114
Transfer agent fees	87,965	107,919
Other costs	14,406	21,173
	<u>289,063</u>	<u>383,354</u>
Net income for the year	<u>\$ 3,137,117</u>	<u>\$ 4,758,375</u>
Net income per limited partnership unit	<u>\$ 0.37</u>	<u>\$ 0.56</u>
<b>Deficit</b>		
Balance beginning of year	(191,726,544)	(191,726,544)
Net income for the year	3,137,117	4,758,375
Distributions to partners	(3,137,117)	(4,758,375)
Balance end of year	<u>\$ (191,726,544)</u>	<u>\$ (191,726,544)</u>

*The accompanying notes are an integral part of the financial statements.*

## AGF Master Limited Partnership Statements of Cash Flow

For the years ended December 31	2008	2007
<b>Operating Activities:</b>		
Net income for the year	\$ 3,137,117	\$ 4,758,375
Net decrease (increase) in non-cash balances related to operations	280,993	(256,383)
	<u>3,418,110</u>	<u>4,501,992</u>
<b>Financing Activities:</b>		
Distributions paid to partners	(4,758,375)	(5,210,819)
<b>Decrease in cash during the year</b>	(1,340,265)	(708,827)
Cash beginning of year	4,847,041	5,555,868
Cash end of year	<u>\$ 3,506,776</u>	<u>\$ 4,847,041</u>

*Note: Cash is defined as cash and term-deposit.  
The accompanying notes are an integral part of these financial statements.*

# AGF Master Limited Partnership

## Notes to Financial Statements

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For the years ended December 31, 2008 and 2007

### 1. Formation of the Partnership

AGF Master Limited Partnership ("Master LP") was formed on January 23, 1998 through the merger (the "Initial Merger") of the following AGF and 20/20 limited partnerships (collectively, the "Initial Merging Partnerships"):

- AGF Limited Partnership 1992 ("AGF LP 1992")
- AGF Limited Partnership 1993 ("AGF LP 1993")
- AGF Limited Partnership 1994 ("AGF LP 1994")
- AGF Limited Partnership 1995 ("AGF LP 1995")
- AGF Limited Partnership No. Three ("AGF LP No. 3")
- AGF Limited Partnership No. Eight ("AGF LP No. 8")
- 20/20 Group 1989 Limited Partnership ("20/20 1989 LP")
- 20/20 Group 1991 Limited Partnership ("20/20 1991 LP")
- The Sunset America Fund Limited Partnership ("Sunset America")

In addition, limited partners of the Initial Merging Partnerships approved subsequent mergers of Master LP with AGF Limited Partnership 1996 ("AGF LP 1996") and AGF Limited Partnership 1997 ("AGF LP 1997") on the same terms and conditions as the Initial Merger. The mergers of Master LP with AGF LP 1996 (the "LP 96 Merger") and AGF LP 1997 (the "LP 97 Merger") were completed on January 22, 1999 and January 21, 2000, respectively.

The Initial Merging Partnerships, AGF LP 1996 and AGF LP 1997 are collectively referred to as the "Merging Partnerships" in these financial statements.

The Initial Merger, LP 96 Merger and the LP 97 Merger have been accounted for using the pooling of interests method. This method reports the assets, liabilities and results of operations of each partnership as if the Merging Partnerships have always been combined. Accordingly, the assets and liabilities of Master LP are reflected at the values recorded by each of the Merging Partnerships, and the statements of operations and deficit, and cash flow are reflected on a combined basis for the period in which the mergers occurred and for all prior periods.

### 2. Significant Accounting Changes

#### Capital Disclosures

Effective January 1, 2008, Master LP adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535 Capital Disclosures. The standard requires the disclosure of both qualitative and quantitative information to enable users of financial statements to evaluate Master LP's objectives, policies and processes for managing its capital. Master LP has no capital required to be disclosed by this new standard because Master LP is required by its Partnership agreement to distribute to its limited partners all of its net income annually.

#### Financial Instruments Disclosures and Presentation

On January 1, 2008, Master LP adopted the CICA Handbook Section 3862 Financial Instruments – Disclosures, and Section 3863 Financial Instruments – Presentation. These new standards replaced Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing these disclosures requirements and carrying forward unchanged the presentation requirements for financial instruments. The new disclosure standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how Master LP manages those risks which are described in the next page.

# AGF Master Limited Partnership

## Notes to Financial Statements

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### **Risk Management**

Master LP's financial instruments consist of cash and term-deposit, distribution fees and interest receivable, accounts payable and accrued liabilities, and distributions payable. In the normal course of business, Master LP manages risks that arise as a result of its use of financial instruments. These risks include market, liquidity and credit risk.

### **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks which are currency risk, interest rate risk and other price risk.

### **Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Master LP is not exposed to significant interest rate risk.

The distribution fees earned by the Master LP were deposited with the bank and this cash balance is exposed to minimal interest rate risk due to the short term nature of the deposits.

### **Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Master LP is not exposed to significant currency risk arising from its financial instruments.

### **Other Price Risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. Master LP is not exposed to other price risk however, is indirectly exposed to market risk based on its revenue earned from the market value of Distributed Securities.

### **Liquidity Risk**

Liquidity risk is defined as the risk that Master LP may not be able to settle or meet its obligations on time. Master LP manages its liquidity risk through maintaining sufficient cash deposits to pay its annual cash distributions through prompt collection of its earned distribution fees. Distributions payable are due within one month.

### **Credit Risk**

Credit risk is the potential of financial loss arising from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Master LP. The Master LP's over-all credit risk strategy and credit risk policy are developed, managed and controlled by the General Partner. The over-all risk strategy and credit risk policy are further refined through the use of policies, processes and internal controls in order to ensure that business activities are within the standards of risk tolerance levels. As at December 31, 2008, the financial assets of \$3.7 million consisting of cash and term deposit of \$3.5 million and distribution fees and interest receivable of \$0.2 million were exposed to credit risk up to the maximum of their respective carrying value.

# AGF Master Limited Partnership

## Notes to Financial Statements

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### 3. Significant Accounting Policies

On January 1, 2007, Master LP adopted the new accounting standard CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement. The financial statements of Master LP are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

#### Investment

The carrying value of cash and cash equivalents approximates fair value.

#### Issue and Merger Expenses

Expenses related to the initial offerings of the Merging Partnerships and expenses resulting from the mergers have been recorded as a reduction of partners' equity.

#### Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### 4. Partnership Operations

The Merging Partnerships were formed for the purpose of arranging for the distribution of securities of certain mutual funds ("Distributed Securities"), which form part of the AGF Group of Funds, which were sold on a contingent deferred sales charge basis. The Merging Partnerships paid selling commissions to registered dealers ranging from 4% to 6% of the purchase price of such securities.

In return for their services, the Merging Partnerships received a monthly distribution fee calculated at annual rates ranging from 0.50% to 0.90% of the net asset value of the Distributed Securities which remain outstanding. Distributed Securities include the mutual fund shares or units on which the Merging Partnerships paid the selling commissions, shares or units issued on subsequent transfers (except for Sunset America) and reinvested distributions or dividends. In addition, the Merging Partnerships receive any contingent deferred sales charges payable by an investor on the redemption of Distributed Securities.

Upon their mergers, each of the Merging Partnerships transferred its rights to distribution fees and deferred sales charges to Master LP.

In accordance with the Limited Partnership Agreement as amended by a special resolution, Master LP will be dissolved no later than March 31, 2018.



# AGF Master Limited Partnership

## Notes to Financial Statements

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### **5. Related Party Transactions**

AGF Partners No. Five Limited is the general partner and is responsible for the management of Master LP on a day-to-day basis. In consideration for its services, the general partner is entitled to 0.01% of the net distributable income of Master LP and will be reimbursed by Master LP for expenses incurred on behalf of Master LP. It also receives an administration fee as consideration for its management of the business and affairs of Master LP and has engaged AGF Management Limited to assist it in carrying out its management obligations to Master LP. These services are in the normal course of operations and are recorded at the amount of consideration agreed to by the parties. Administration fees during the year 2008 amounted to \$123,318 (2007 - \$154,148).

### **6. Uncashed Distribution Cheques**

The total amount of uncashed distribution cheques as at December 31, 2008 was \$335,904 (December 31, 2007 - \$335,904). For accounting purposes, this amount has been classified as cash and distributions payable on the balance sheet.

### **7. Taxation of the Partnership**

These financial statements only include the assets and liabilities of Master LP and do not include the other assets and liabilities, including income taxes, of the partners. Master LP allocated its income for tax purposes for the year ended December 31, 2008 to partners of record on December 31, 2008.

### **8. Subsequent Event**

Master LP is entitled to the same revenue streams, with the same termination dates, as the Merging Partnerships. The net asset value of the Distributed Securities of Merging Partnership AGF LP 1993 which remain outstanding as at December 31, 2008 was \$77.3 million. The monthly distribution fee calculated at an annual rate of 0.50% of the net asset value of the outstanding Distributed Securities of AGF LP 1993 expired on December 31, 2008.



What are you doing after work?

### **AGF Master Limited Partnership**

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