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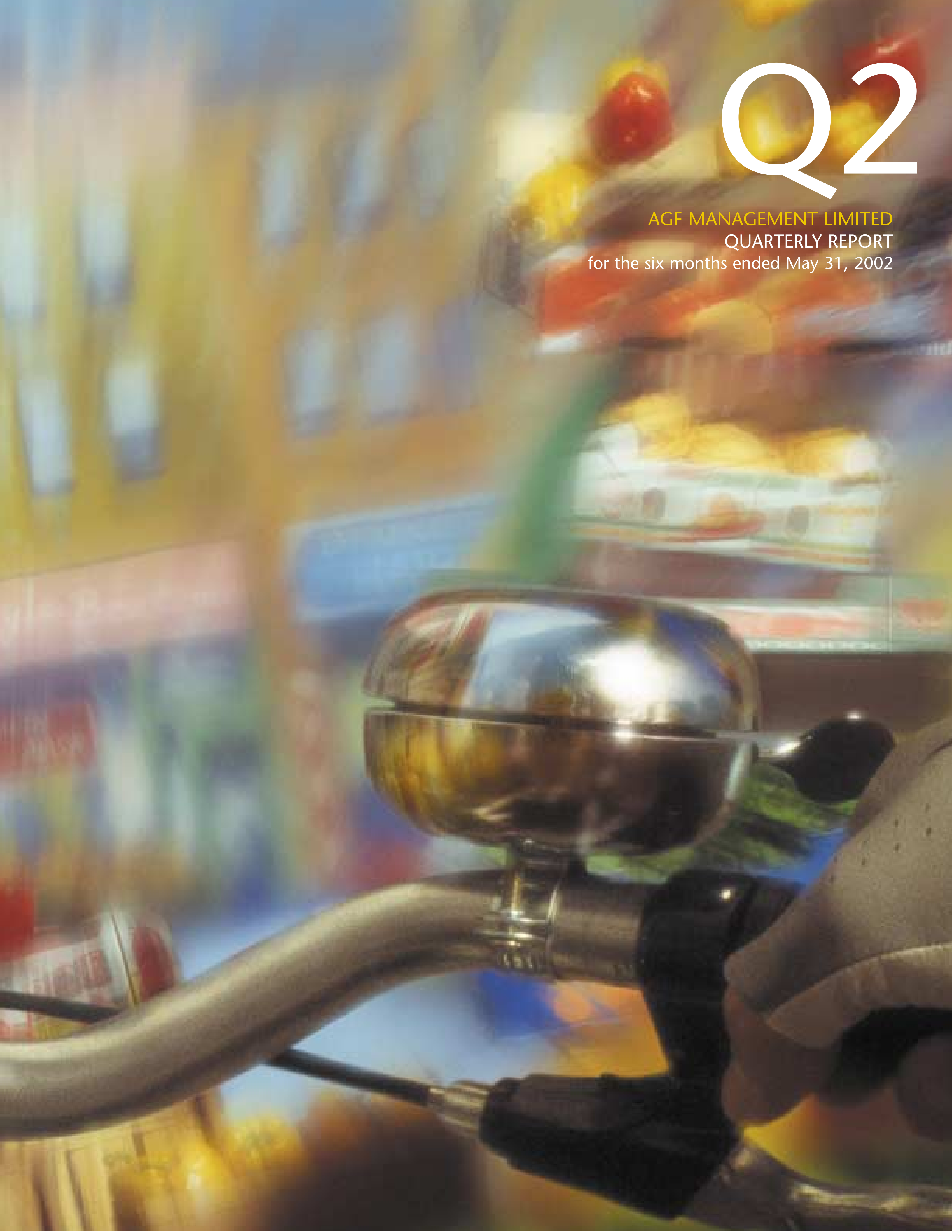

AGF MANAGEMENT LIMITED

QUARTERLY REPORT

for the six months ended May 31, 2002

active management delivers

dear fellow shareholders

The results for the three months ended May 31, 2002, show that AGF is moving forward with drive and purpose as we progress through the year. In one of the most challenging market environments in recent memory, we have posted a solid second quarter by growing revenue and cash flow from operations by 9.8% and 1.1% respectively.

As ever, we remain firmly focused on meeting the needs of our customers, sustaining the growth of our business and continuing our successful efforts to contain costs.

New accounting policies for income taxes and goodwill and other intangible assets, as detailed in the consolidated financial statements and Management's Discussion and Analysis, have significantly impacted comparative net income results. For this reason, cash flow continues to provide the most relevant measure to gauge year-over-year performance.

AGF reported cash flow from operations of $76.6 million, or $0.83 per share diluted, for the second quarter of 2002, an increase of 1.1 per cent from the same period in 2001.

Free cash flow from operations more than doubled to $39.4 million for the three months ended May 31, 2002, up from $17.5 million for the same period last year.

On June 4, 2002, AGF announced that a worldwide manager search launched in March, 2002, had been successfully completed with the appointment of three teams of investment managers for four global value mandates holding about $10 billion in assets. U.S.-based Harris Associates L.P. has been named the new manager of AGF International Value Fund and AGF RSP International Value Fund. AGF International Stock Class is now managed by AGF International Advisors Company Limited and AGF Funds Inc. is taking responsibility for AGF Emerging Markets Value Fund. Our new partnerships mark the best of all worlds for advisors and unitholders.

During the quarter AGF also announced that Winthrop H. Smith Jr., former executive vice-president of Merrill Lynch & Co. and former director of Merrill Lynch Canada, joined the AGF board of directors. His experience in U.S. and global markets will provide AGF with new insight and expertise in support of international activities and building business in the private client segment.

While the current economic and market environment remains challenging, we achieved key objectives during the second quarter that will leave AGF well-positioned for future growth and success.

Blake C. Goldring, CFA
President & Chief Executive Officer
June 26, 2002

management's discussion and analysis

Management's Discussion and Analysis ("MD & A") presents an analysis of the financial condition of AGF Management Limited ("AGF") and its subsidiaries (collectively referred to as the "Corporation") as at May 31, 2002 compared with November 30, 2001, and the results of operations for the three months and six months ended May 31, 2002 compared with the corresponding periods of 2001. It should be read in conjunction with the MD & A included in the Corporation's 2001 annual report and the quarterly report for the three months ended February 28, 2002.

Results of Operations

Consolidated net income for the three months ended May 31, 2002 was $37.0 million as compared with net income of $57.6 million for the three months ended May 31, 2001. Diluted earnings per share were $0.40, down from $0.63 per share a year ago. Net income for the six months ended May 31, 2002 was $70.9 million or $0.77 per share diluted, compared with $119.8 million or $1.31 per share diluted a year ago. The comparative net income results have been significantly impacted by the changes in accounting policies described below. The Corporation believes it is more meaningful to focus on cash flow from operations for the purpose of comparing year-over-year performance. Cash flow from operations (before net change in non-cash balances related to operations) reached $76.6 million ($0.83 per share diluted) for the three months ended May 31, 2002, up 1.1% from $75.8 million in the same period a year ago.

Impacts of significant accounting changes

Effective December 1, 2001, as a result of the adoption of the new accounting policy for goodwill and other intangible assets (Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3062), $114.3 million of goodwill and $473.7 million of mutual fund management contracts which have an indefinite useful life are no longer subject to amortization. The adoption of Section 3062, without restatement of prior periods, increased net income for the three month and six month periods ended May 31, 2002 by $8.7 million and $21.4 million, respectively.

During the quarter ended May 31, 2002, the Corporation completed the initial impairment testing on the carrying values of goodwill and indefinite life mutual fund management contracts as specified in Section 3062 and determined that there has been no impairment to the respective carrying value of these assets. Accordingly, no impairment losses were required to be recognized as a result of this testing. However, if, due to the release of new accounting guidelines by the CICA on this subject or changes in circumstances, these mutual fund management contracts are subsequently determined to have finite useful lives, they will then be amortized over their remaining estimated useful lives.

Effective December 1, 2000, the Corporation changed its method of accounting for income taxes from the deferral method to the liability method as required under Section 3465 of the CICA Handbook. The adoption of Section 3465, together with the effects of lower federal and Ontario income tax rates, increased net income by $36.1 million and $70.8 million, respectively, for the three months and six months ended May 31, 2001.

Consolidated net income adjusted to exclude the impact of these two accounting policy changes is as follows:

$ MILLIONS

	Three months ended May 31		Six months ended May 31	
	2002	2001	2002	2001
Consolidated net income – reported	$ 37.0	$ 57.6	$ 70.9	$ 119.8
Less:				
Net impact of Section 3062	8.7	—	21.4	—
Net impact of Section 3465	—	36.1	—	70.8
Consolidated net income – adjusted	$ 28.3	$ 21.5	$ 49.5	$ 49.0

Wealth Management Operations

Revenue

Revenue of the wealth management operations for the three months and six months ended May 31, 2002 were $173.0 million and $331.2 million, respectively, increasing 8.4% and 4.0% from the corresponding periods in 2001.

Management and advisory fee revenue, net of distribution fees, increased 4.4% to $141.1 million for the three months ended May 31, 2002 from $135.2 million in 2001. Management and advisory fee revenue amounted to $274.0 million for the six months ended May 31, 2002 as compared with $267.9 million a year ago. Management and advisory fees are calculated on the average daily mutual fund assets managed by the Corporation. Average daily mutual fund assets under management for the three months and six months ended May 31, 2002 and 2001 are summarized as follows:

$ BILLIONS

	2002	2001	% change
Average daily mutual fund assets under management			
Three months ended May 31	**$ 29.20**	**$ 28.14**	**3.8%**
Six months ended May 31	**$ 28.73**	**$ 28.09**	**2.3%**

Mutual fund assets under management stood at $28.24 billion as at May 31, 2002.

During the six months ended May 31, 2002, the Corporation recorded net mutual fund sales of $558.1 million despite facing a difficult industry environment. During the three months ended May 31, 2002, the Corporation recorded net fund redemptions of $88.3 million. The reversal in net sales between the first and second quarter is partially attributable to the lower level of investor demand for investment products after the RSP season. In addition, the announcement on March 25, 2002 by Brandes Investment Partners LP ("Brandes") of their decision to break their investment advisory contracts with certain funds managed by the Corporation has adversely impacted sales activity since that date. At the time of the announcement, the funds advised by Brandes, including AGF International Value Fund, had net assets of $10.3 billion. The uncertainty created by the Brandes decision has caused higher than normal redemptions for such funds as investors awaited the appointment of the new portfolio advisors.

With foreign equity funds representing 57.7% of the Corporation's mutual fund assets as at May 31, 2002 (57.1% as at May 31, 2001), asset levels are related to the performance of U. S. and international equity markets. Continuing lackluster performance of global equity markets as well as the recent decline of the U. S. dollar has caused an aggregate market depreciation of fund portfolios of $371.7 million and $148.1 million, respectively, during the three months and six months ended May 31, 2002.

Administration fees and other revenue, which include third-party administration revenue and investment advisory fees, increased 32.9% to $20.6 million for the three months ended May 31, 2002 from $15.5 million for the corresponding period a year ago. Administration fees and other revenue rose from $34.0 million for the six months ended May 31, 2001 to $38.1 million for the six months ended May 31, 2002. The acquisition of the third party fund administration business of The Toronto-Dominion Bank on January 31, 2002 generated higher administration fee revenue for the three months and six months ended May 31, 2002.

Assets under management for institutional clients and high-net-worth individuals stood at $5.83 billion as at May 31, 2002, declining 4.6% and 3.6%, respectively, as compared to assets under management of $6.11 billion as at November 30, 2001 and $6.05 billion as at May 31, 2001. The decline is attributable, in part, to the poor equity market performance of recent months.

Deferred sales charge ("DSC") revenue amounted to $11.2 million and $18.5 million for the three months and six months ended May 31, 2002, as compared to $8.2 million and $15.4 million for the corresponding periods a year ago. The amount of DSC revenue is a function of the level of redemptions and the applicable DSC schedule. The Corporation's fiscal 2002 year-to-date annualized redemption rate of 16.1% of mutual funds assets as at May 31, 2002 continues to be lower than the industry average, which is estimated at 27.8% based on statistics provided by the Investment Funds Institute of Canada.

Expenses and income taxes

Selling, general and administrative expenses ("SG&A") were $32.4 million for the three months ended May 31, 2002, an increase of $1.9 million over the corresponding period a year ago. For the six months ended May 31, 2002, SG & A amounted to $62.1 million as compared to $59.0 million in 2001. The increase is attributable to the higher operating costs associated with the expansion of the third-party administration business. With stringent financial control measures, the Corporation reduced its SG & A in respect of the mutual fund operations, expressed as a percentage of average mutual fund assets under management, by 2 basis points for the six months ended May 31, 2002 as compared to the same period in 2001.

Trailing commissions were $36.3 million for the three months ended May 31, 2002 as compared to $32.7 million a year ago. In addition to the higher level of mutual fund assets under management as compared to a year ago, the increase is attributable to the recent trend of a greater percentage of mutual funds being purchased by investors on a front-end load basis. For the six months ended May 31, 2002, trailing commissions increased 10.9% to $70.7 million from $63.8 million in 2001.

Investment advisory fees were $12.7 million for the three months ended May 31, 2002, up from $12.3 million for the same period in 2001. For the six months ended May 31, 2002, investment advisory fees were $24.9 million, as compared to $24.2 million for the six months ended May 31, 2001. Investment advisory fees fluctuate based on assets of the mutual funds that are advised by external advisors.

Reflecting a higher cumulative amount of selling commissions financed internally, amortization of deferred selling commissions was up 17.7% to $29.7 million for the three months ended May 31, 2002 from $25.2 million a year ago. For the six months ended May 31, 2002, amortization of deferred selling commissions amounted to $57.9 million as compared to $48.1 million for the corresponding period in 2001.

Amortization of management and customer contracts declined from $10.4 million and $20.9 million, respectively, for the three months and six months ended May 31, 2001 to $3.9 million and $7.2 million for the comparable periods in 2002. Effective December 1, 2001, the Corporation ceased the amortization of goodwill and management contracts with an indefinite life as a result of the change in accounting policy described in Note 1 to the interim consolidated financial statements. The Corporation continues to amortize investment advisory and customer contracts with finite lives on a straight-line basis over their estimated useful lives.

Interest expense amounted to $2.4 million and $4.7 million, respectively, for the three months and six months ended May 31, 2002 as compared with $4.2 million and $8.7 million for the corresponding periods a year ago. The declines reflect lower prevailing interest rates and significantly reduced levels of bank and other debt outstanding during fiscal 2002 as compared to 2001.

The Corporation's effective income tax rates for the three months and six months ended May 31, 2002 were 26.7% and 24.6%, respectively, as compared to the statutory tax rate of 38.8%. The effective income tax rate includes the impact of adjustments to future income taxes resulting from the discontinuation of the amortization of goodwill and indefinite life management contracts. In addition, the Corporation recently acquired access to a significant amount of deductible charitable donations which is expected to generate net tax benefits of approximately $8.0 million, of which $2.0 million was recognized in the second quarter of fiscal 2002.

Trust Company Operations

AGF Trust Company (the "Trust Company") recorded a net loss of $10,000 for the three months ended May 31, 2002, compared with net income of $450,000 for the same period last year. For the six months ended May 31, 2002, the Trust Company recorded a net loss of $434,000 compared with net income of $927,000 for the same period last year. The loss in 2002 is mainly due to an increase in administrative expenses and loan loss provisions related to the new RRSP loan program.

The six months ended May 31, 2002 has seen a rapid expansion of the Trust Company's asset base, due to the success of the inaugural year of the RRSP loan program. As at May 31, 2002, the RRSP loan portfolio stood at $121.2 million. Net investment income for the three months ended May 31, 2002 grew to $1.8 million compared with $1.1 million for the three months ended May 31, 2001. For the six months ended May 31, 2002, net investment income was $2.8 million, an increase of $0.6 million compared with the same period last year. Both interest income and interest expense have grown due to the rapid accumulation of assets and deposits during the RRSP season. The provision for loan losses has increased significantly to $549,000 for the three months ended May 31, 2002, an increase of $487,000 over the same period last year. For the six months ended May 31, 2002, the loan loss provision was $1.1 million, an increase of $961,000.

The Trust Company's balance sheet and financial position remained sound. Total assets have grown to $386.9 million as at May 31, 2002, an increase of $143.6 million or 59.0% from November 30, 2001. The assets to capital multiple stood at 13.9 times, up from 13.1 times at November 30, 2001, and well within the maximum permitted multiple of 17.5 times.

As the growth of RRSP loans slows in the months subsequent to the RRSP season, loan origination costs, including loan loss provisions, should be reduced. The Trust Company has experienced a return to profitability in May 2002 and anticipates a net profit for fiscal 2002.

Cash Flow and Liquidity

Cash flow from operations (before net change in non-cash balances related to operations) increased 1.1% to $76.6 million for the three months ended May 31, 2002 from $75.8 million for the same period a year ago. For the six months ended May 31, 2002, cash flow from operations was $145.4 million, as compared to $152.0 million for the six months ended May 31, 2001.

Selling commissions paid by the Corporation during the three months and six months ended May 31, 2002 amounted to $37.2 million and $76.5 million, respectively, as compared to $58.2 million and $119.6 million for the corresponding periods in 2001. The decrease in selling commissions paid reflects lower gross mutual fund sales on a DSC basis in 2002 versus 2001. Free cash flow from operations (defined as cash flow from operations less selling commissions paid) more than doubled from $32.5 million for the six months ended May 31, 2001 to $68.9 million for the six months ended May 31, 2002.

As at May 31, 2002, the Corporation has drawn $35.3 million against its $150.0 million revolving term loan facility. Given its strong operating cash flow and the available balance of the revolving term loan facility, the Corporation believes it has sufficient liquidity to support its business operations, including the funding of selling commissions, for the balance of fiscal 2002.

Financial Position

Total assets of the Corporation amounted to $1.73 billion as at May 31, 2002 as compared to $1.55 billion at November 30, 2001. Shareholders' equity increased $61.9 million during the six month period to $826.7 million as at May 31, 2002.

As at May 31, 2002, the Corporation's long-term debt (excluding the portion due within one year) stood at $161.1 million. The Corporation reduced its long-term debt by $4.4 million during the six months ended May 31, 2002, improving its debt to equity ratio to 0.19 to 1. The Corporation has no off balance sheet financing other than the mutual fund limited partnerships and deferred selling commission financing agreements disclosed in Notes 12 and 13 to the consolidated financial statements for the year ended November 30, 2001. These financing arrangements were commonly used by mutual fund management companies to finance selling commissions paid on mutual funds sold on a DSC basis. The Corporation has generally been financing these selling commissions internally since December 1, 1997.

The Corporation has entered into certain interest rate swap and foreign exchange hedge transactions which are described in Note 5 to the interim consolidated financial statements.

Outlook

On June 4, 2002, the Corporation completed a comprehensive worldwide search for value managers to replace Brandes by appointing U.S.-based Harris Associates L. P. as sub-advisor on AGF International Value Fund and AGF RSP International Value Fund. In addition, AGF International Advisors Company Limited, an indirect wholly-owned subsidiary of AGF, was appointed as sub-advisor on AGF International Stock Class while the smaller AGF Emerging Markets Value Fund will be managed internally going forward. The Corporation believes these appointments eliminate the uncertainty created by the Brandes termination and allow investors to once again focus on the long-term investment prospects for these funds.

World equity markets have turned lower in recent weeks as investors reacted to mixed economic signals, especially in the United States, and a poor short-term earnings outlook. At current prices, stocks are trading at more favourable valuation levels than in recent years. This should set the stage for better investment returns as global economic conditions improve in the coming months.

Forward Looking Statements

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

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

	May 31, 2002	November 30, 2001
ASSETS		
Wealth Management Operations		
Current assets		
Cash and term deposits	$ 4,213	$ 1,445
Short-term investments	20,447	22,021
Accounts receivable and prepaid expenses	62,041	56,042
	86,701	79,508
Investment in associated company	26,634	27,435
Other investments	8,811	8,811
Management contracts (note 1)	473,670	473,670
Customer contracts, net of accumulated amortization (note 1)	100,389	82,069
Deferred selling commissions, net of accumulated amortization	498,034	479,409
Property and equipment, net of accumulated amortization	34,822	37,617
Goodwill, net of accumulated amortization (note 1)	114,260	114,260
	1,343,321	1,302,779
Trust Company Operations		
Cash and term deposits	10,252	29,355
Accounts receivable and other assets	7,693	5,569
Investments	4,855	4,843
Mortgages and consumer loans	364,108	203,544
	386,908	243,311
	$ 1,730,229	$ 1,546,090
LIABILITIES		
Wealth Management Operations		
Current liabilities		
Accounts payable and accrued liabilities	$ 58,980	$ 62,296
Long-term debt due within one year (note 4)	48,896	48,896
Income taxes payable	3,327	7,762
	111,203	118,954
Long-term debt (note 4)	161,098	165,481
Participation units	6,157	6,157
Future income taxes	266,072	266,834
Non-controlling interest in subsidiary	—	83
	544,530	557,509
Trust Company Operations		
Accounts payable and accrued liabilities	8,166	5,428
Deposits	350,879	218,446
	359,045	223,874
SHAREHOLDERS' EQUITY		
Capital stock (note 3)	363,103	361,401
Retained earnings	462,648	402,964
Foreign currency translation adjustment	903	342
	826,654	764,707
	$ 1,730,229	$ 1,546,090

Consolidated Statements of Income

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

	Three months ended May 31 2002	Three months ended May 31 2001	Six months ended May 31 2002	Six months ended May 31 2001
Revenue				
Wealth Management Operations				
Net management and advisory fees	$ 141,085	$ 135,201	$ 273,978	$ 267,942
Administration fees and other revenue	20,603	15,504	38,139	33,955
Deferred sales charges	11,176	8,225	18,450	15,382
Investment income	156	623	671	1,141
	173,020	159,553	331,238	318,420
Trust Company interest, dividends and administration fees	6,069	3,626	10,439	7,270
	179,089	163,179	341,677	325,690
Expenses				
Wealth Management Operations				
Selling, general and administrative	32,412	30,503	62,078	58,959
Trailing commissions	36,306	32,671	70,701	63,761
Investment advisory fees	12,653	12,254	24,941	24,174
Amortization of deferred selling commissions	29,712	25,247	57,857	48,131
Integration costs	1,000	—	1,000	—
Amortization of management and customer contracts	3,897	10,448	7,186	20,893
Amortization of goodwill	—	2,176	—	4,351
Amortization of property and equipment	4,021	2,926	7,925	5,783
Interest expense	2,400	4,226	4,674	8,746
	122,401	120,451	236,362	234,798
Trust Company Operations				
Interest on deposits	3,821	2,328	6,835	4,646
General and administrative	1,887	695	3,528	1,346
Provision for loan losses	549	61	1,102	141
	6,257	3,084	11,465	6,133
	128,658	123,535	247,827	240,931
Income before income taxes and non-controlling interest	50,431	39,644	93,850	84,759
Income taxes				
Current	12,757	5,706	24,049	12,723
Future	687	(23,458)	(991)	(47,509)
	13,444	(17,752)	23,058	(34,786)
Net income before non-controlling interest	36,987	57,396	70,792	119,545
Non-controlling interest share of loss of subsidiary	—	162	83	254
Net income for the period	$ 36,987	$ 57,558	$ 70,875	$ 119,799
Earnings per share (note 1)				
Basic	$ 0.41	$ 0.65	$ 0.79	$ 1.35
Diluted	$ 0.40	$ 0.63	$ 0.77	$ 1.31

Consolidated Statements of Retained Earnings

(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

	Three months ended May 31		Six months ended May 31	
	2002	2001	2002	2001
Retained earnings, beginning of period	$ 431,486	$ 316,655	$ 402,964	$ 258,838
Net income for the period	36,987	57,558	70,875	119,799
	468,473	374,213	473,839	378,637
Deduct:				
Dividends on Class A and Class B shares	5,825	4,452	11,191	8,876
Excess paid over average issue price of Class B shares purchased for cancellation	—	51	—	51
	5,825	4,503	11,191	8,927
Retained earnings, end of period	$ 462,648	$ 369,710	$ 462,648	$ 369,710

Consolidated Statements of Cash Flow

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

	Three months ended May 31 2002	2001	Six months ended May 31 2002	2001
Operating activities				
Net income for the period	$ 36,987	$ 57,558	$ 70,875	$ 119,799
Items not affecting cash –				
Amortization of deferred selling commissions	29,712	25,247	57,857	48,131
Future income taxes	687	(23,458)	(991)	(47,509)
Amortization of management and customer contracts	3,897	10,448	7,186	20,893
Amortization of goodwill	—	2,176	—	4,351
Amortization of property and equipment	4,021	2,926	7,925	5,783
Other	1,288	867	2,518	591
	76,592	75,764	145,370	152,039
Net (increase) decrease in non-cash balances related to operations	982	19,354	(13,099)	(45,696)
	77,574	95,118	132,271	106,343
Financing activities				
Net change in Class B shares	1,398	576	1,702	132,881
Dividends	(5,825)	(4,452)	(11,191)	(8,876)
Decrease in bank loan	(36,850)	(4,000)	(1,200)	(101,450)
Decrease in notes and instalment payable	(1,439)	(2,116)	(3,186)	(3,868)
Increase in Trust Company deposits	31,972	853	132,433	10,026
	(10,744)	(9,139)	118,558	28,713
Investing activities				
Deferred selling commissions paid	(37,234)	(58,233)	(76,482)	(119,558)
Acquisition of third-party administration business (note 2)	—	—	(25,506)	—
Investment in associated company	—	(1,972)	—	(11,237)
Purchase of capital assets	(3,955)	(3,724)	(5,130)	(10,844)
Purchase of investments	—	—	—	(30)
Sale (purchase) of investments- Trust Company Operations	—	1	—	(38)
Increase in Trust Company mortgages and consumer loans	(85,928)	(9,591)	(161,620)	(16,375)
	(127,117)	(73,519)	(268,738)	(158,082)
Increase (decrease) in cash and cash equivalents during the period	(60,287)	12,460	(17,909)	(23,026)
Balance of cash and cash equivalents, beginning of period	95,199	71,611	52,821	107,097
Balance of cash and cash equivalents, end of period	$ 34,912	$ 84,071	$ 34,912	$ 84,071
Represented by:				
Cash and term deposits				
Wealth Management Operations	$ 4,213	$ 46,258		
Trust Company Operations	10,252	8,692		
Short-term investments	20,447	29,121		
	$ 34,912	$ 84,071		
Supplemental disclosure of cash flow information				
Interest payments during the period	$ 6,246	$ 6,579	$ 11,559	$ 13,442
Income tax payments during the period	$ 10,435	$ 8,933	$ 28,484	$ 30,868
Cash flow from operations per share (before net change in non-cash balances related to operations)				
Basic	$ 0.85	$ 0.85	$ 1.62	$ 1.71
Diluted	$ 0.83	$ 0.83	$ 1.58	$ 1.66

notes to consolidated financial statements

FOR THE THREE MONTHS AND SIX MONTHS ENDED MAY 31, 2002 AND MAY 31, 2001 (UNAUDITED)
(IN DOLLARS, EXCEPT AS OTHERWISE STATED)

These unaudited interim consolidated financial statements of AGF Management Limited ("AGF") have been prepared in accordance with Canadian generally accepted accounting principles using the same significant accounting policies as AGF's consolidated financial statements for the year ended November 30, 2001, except for the changes in accounting policies described in note 1. These financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended November 30, 2001, as set out in AGF's 2001 Annual Report.

1. Changes in accounting policies

Goodwill and other intangible assets

On December 1, 2001, AGF adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook section 3062, "Goodwill and Other Intangible Assets". A total of $11.4 million of goodwill related to an investment in NCL (Securities) Limited, an associated company accounted for by the equity method, was reclassified to customer contracts as a result of the adoption of section 3062.

Management contracts have been determined to have an indefinite life and the carrying values are not subject to amortization. Other intangible assets having finite lives include customer contracts, customer relationships and investment advisory contracts. These intangible assets are being amortized on a straight-line basis, based on their estimated useful lives, which range from 5 to 15 years.

As of May 31, 2002, AGF has completed its impairment testing on the carrying values of goodwill and other indefinite life intangible assets. No impairment losses were required to be recognized as a result of this testing.

The provisions of section 3062 require that amortization of goodwill and intangible assets with an indefinite life cease upon adoption of section 3062. Adoption of this accounting policy resulted in a $22.3 million decrease in amortization of goodwill and management contracts and a $0.9 million increase in future income tax expense in the six months ended May 31, 2002. The following table discloses a reconciliation of previously reported net income, basic earnings per share and diluted earnings per share to the amounts adjusted for the exclusion of goodwill and management contract amortization, net of income taxes.

$(000)'s	Three months ended May 31 2002	Three months ended May 31 2001	Six months ended May 31 2002	Six months ended May 31 2001
Reported net income	$ 36,987	$ 57,558	$ 70,875	$ 119,799
Add back:				
Goodwill amortization	—	2,176	—	4,351
Management contract amortization, net of income taxes	—	6,675	—	13,416
Net income adjusted for goodwill and management contract amortization	$ 36,987	$ 66,409	$ 70,875	$ 137,566
Earnings per share				
Basic - Reported	$ 0.41	$ 0.65	$ 0.79	$ 1.35
- Adjusted	$ 0.41	$ 0.75	$ 0.79	$ 1.55
Diluted - Reported	$ 0.40	$ 0.63	$ 0.77	$ 1.31
- Adjusted	$ 0.40	$ 0.73	$ 0.77	$ 1.51

Earnings per share (EPS)

On December 1, 2001, AGF adopted CICA Handbook section 3500, "Earnings Per Share." The new recommendations require the use of the treasury stock method in computing diluted EPS. The requirements of section 3500 were adopted retroactively and diluted EPS figures for prior periods have been restated. Upon restatement diluted EPS for the three months ended May 31, 2001 was unchanged and for the six months ended May 31, 2001 was increased by $0.01.

Interim financial statements

On December 1, 2001, AGF adopted CICA Handbook section 1751, "Interim Financial Statements", which changes the requirements for the presentation and disclosure of interim financial statements and their accompanying notes.

2. Acquisition of third party administration business from The Toronto-Dominion Bank

On January 31, 2002, AGF, through its wholly owned subsidiary AdminSource Inc., acquired the TD Bank's third party shareholder record keeping and fund valuation business for cash consideration of $25.5 million including acquisition costs. The transaction was an asset purchase and the entire purchase price was assigned to the intangible asset, Customer contracts and relationships. The intangible asset is being amortized over its estimated useful life of seven years. The acquired business, which is based in Toronto, provides shareholder record keeping and fund valuation services to a variety of investment management firms. AdminSource Inc. plans to integrate this business into its operations over the next 12 months. The results of operations of the acquired business have been included in these interim consolidated financial statements since the closing date of the transaction.

3. 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) Equity offering of Class B shares

On December 6, 2000, AGF issued 5,500,000 Class B shares at $25.00 per share. The net cash proceeds amounting to $131.7 million (gross proceeds of $137.5 million less share issue costs of $5.8 million) were used to fully repay the bank bridge loan and partially repay the revolving term loan.

(c) Movement during the period

The movement in capital stock during the six months ended May 31, 2002 is summarized as follows:

	Number of shares issued	Amount (000's)
Class B shares		
Balance, November 30, 2001	89,280,587	$ 361,401
Issued through dividend reinvestment plan	787	18
Stock options exercised	393,477	1,684
Balance, May 31, 2002	89,674,851	363,103
Class A shares		
Balance, May 31, 2002 and November 30, 2001	57,600	—
Total stated capital		$ 363,103

(d) 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, 2003.

(e) Stock option plans
AGF has established stock option plans for senior employees under which stock options to purchase an aggregate maximum of 5,375,633 Class B shares could have been granted as at May 31, 2002. Stock options are vested to the extent of 25% to 33% of the individual's entitlement per annum.

The movement in stock options during the six months ended May 31, 2002 is summarized as follows:

	Number of options	Weighted average exercise price
Class B share options		
Balance outstanding, November 30, 2001	4,066,457	$ 9.61
Options granted	614,900	$ 22.53
Options cancelled	(3,333)	$ 19.01
Options exercised	(393,477)	$ 4.28
Balance outstanding, May 31, 2002	4,284,547	$ 11.92

4. Long-term debt

$ (000's)	May 31, 2002	November 30, 2001
Bank loans		
Fully amortizing term loan	$ 123,900	$ 141,600
Revolving term loan	35,300	18,800
Notes payable due November 22, 2004	14,291	14,906
Notes payable due April 30, 2013	27,568	30,059
Instalment payable due July 31, 2002	8,527	8,527
Loan notes due September 30, 2004	408	485
	209,994	214,377
Less: amount included in current liabilities	48,896	48,896
	$ 161,098	$ 165,481

Fully amortizing term loan

At May 31, 2002, the Corporation has drawn the facility in the form of a 62-day BA at an effective interest rate of 2.96% per annum.

Revolving term loan

As at May 31, 2002, the Corporation has drawn $35.3 million against the available loan amount of $150.0 million in the form of 5-day to 91-day BAs at an effective interest rate of 2.83% per annum.

5. Interest rate swap and foreign exchange hedge transactions

The Corporation has entered into, for hedging purposes, 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 May 31, 2002, the aggregate notional amount of the Swap Transactions was $54.3 million. The aggregate fair value of the Swap Transactions, which represents the amount that would be paid (received) by the Corporation if the transactions were terminated at May 31, 2002, was $1,332,000.

To hedge its currency exposure and to fix the interest rate on borrowings in connection with a Japanese yen denominated investment, the Corporation has entered into a cross currency swap transaction which expires on November 29, 2004. It involves the exchange of three-month bankers' acceptance floating interest rates on a notional amount of CDN $3,293,000 for a fixed interest rate of 0.67% per annum on a notional amount of JPY ¥256,000,000. The aggregate fair value of the cross currency swap transaction, which represents the amount that would be paid (received) by the Corporation if the transaction was terminated at May 31, 2002, was $(127,000).

To hedge its currency exposure in connection with its investment in U.K.-based NCL (Securities) Limited, an associated company, the Corporation has entered into foreign exchange forward contracts to sell U.K. £12,500,000 on April 22, 2003 at an exchange rate of 2.2439 for CDN $28,048,000 and to sell U.K. £3,000,000 on July 18, 2002 at an exchange rate of 2.2641 for CDN $6,792,000. The fair value of the forward contracts at May 31, 2002 have been included in the foreign currency translation adjustment.

To hedge its exposure to fluctuating interest rates, AGF Trust Company has entered into 8 interest rate swap transactions with two Canadian chartered banks as noted below. The swap transactions expire between October 19, 2002 and April 19, 2007 and involve the exchange of the average 1 month bankers' acceptance rate to receive fixed interest rates, paid monthly. As at May 31, 2002, the aggregate notional amount of the swap transactions was $123,000,000. The aggregate fair value of the swap transactions, which represents the amount that would be paid (received) by AGF Trust Company if the transactions were terminated at May 31, 2002, was $326,000.

$(000's) Notional Amount of Swap	Maturity Date	Fixed Interest Rate Received
$ 20,000	October 19, 2002	2.67%
15,300	March 1, 2003	2.70%
16,000	December 19, 2003	3.90%
18,500	March 1, 2004	3.60%
10,000	November 29, 2004	4.41%
8,500	March 1, 2005	4.17%
19,700	March 1, 2007	4.82%
15,000	April 19, 2007	5.11%

What are you doing after work?

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