

Q2

AGF Management Limited Second Quarter Report

For the six months ended **May 31, 2005**



What are you doing after work?



## dear fellow shareholders

In the second quarter of fiscal 2005, AGF continued to generate healthy cash flow and value to shareholders. Along with the dividend increase announced in the first quarter of 2005, AGF repurchased more than one million shares in the quarter ended May 31, 2005.

In the second quarter of 2005, AGF reported cash flow from operations (before net change in non-cash balances related to operations) of \$63.5 million, or \$0.70 per share diluted, compared with \$68.4 million one year ago, or \$0.74 per share diluted.

It is important to note that comparisons with the three months ended May 31, 2004 should recognize the acquisition of tax-related benefits at that time, which resulted in a lower effective income tax rate and benefited our net income and cash flow from operations by \$7.1 million, or \$0.08 per share diluted.

In the second quarter of fiscal 2005, consolidated revenue was \$158.1 million compared with \$166.5 million in the second quarter of the prior year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$70.5 million compared with \$79.0 million for the quarter ended May 31, 2004. Diluted earnings per share were \$0.25 in the second quarter of 2005, compared with \$0.37 per share in the second quarter of 2004. Consolidated net income for the three months ended May 31, 2005 was \$22.4 million compared with \$34.0 million for the same period last year.

During the quarter, AGF continued to build our plan to refocus our business and reconnect with investment advisors across the country.

Subsequent to quarter end, we made a key appointment naming Martin Hubbes to the post of Senior Vice-President and Chief Investment Officer. He succeeds Bob Farquharson, who will remain Vice-Chairman, AGF Management Ltd. As a portfolio manager since 1963 and CIO since 1996, Bob has had one of the longest and most distinguished careers in the Canadian investment management industry. While Bob is now passing the torch to Martin, he will remain a valued partner and resource to the company. I want to express sincere thanks to Bob for his contributions as CIO and to Clive Coombs, who has moved on to pursue new opportunities.

Martin Hubbes is a 13-year veteran of AGF with extensive portfolio management and administrative experience. In his new role, Martin will bring consistency and evolution, as well as continuity and vision to AGF's investment management operations.

During the quarter, we also made another important hire in the area of institutional investment services. Gary Wing will help us reinforce and build on the potential of this important area of our business.

We also announced an agreement to acquire the management of the mutual fund assets of ING Canada Inc. When completed in August 2005, this transaction will represent an additional \$240 million in mutual fund assets.

AGF Trust's operations also continued to grow significantly and to maximize synergies with the investment management operations. Revenue in the trust company operations for the three months ended May 31, 2005 grew by 44.1 per cent from the prior year due to a 62.0 per cent year-over-year increase in mortgage loans and a 67.0 per cent increase in the consumer loan portfolios.

For the remainder of the year, we are committed to driving forward our agenda for change based on the four pillars of leadership, client focus, product renewal and business momentum.



Blake C. Goldring, CFA  
President and Chief Executive Officer  
July 4, 2005

#### **Caution Regarding Forward-Looking Statements**

This Management's Discussion and Analysis ("MD&A") includes forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "intends," "plans," "believes" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action on our part is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about our operations, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by us due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events and our ability to complete strategic transactions and integrate acquisitions. We caution that the foregoing list is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. We are under no obligation (and expressly disclaim any such obligation) to update or alter the forward-looking statements whether as a result of new information, future events or otherwise. This discussion should be read in conjunction with our 2004 Annual MD&A and 2004 audited Consolidated Financial Statements and Notes. Please see the 2004 Annual MD&A "Factors that May Affect Future Results" section for a further discussion of factors that may affect actual results.

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

For the six months ended May 31, 2005

Management's Discussion and Analysis ("MD&A") presents an analysis of the financial condition of AGF Management Limited and its subsidiaries as at May 31, 2005 compared with November 30, 2004, and the results of operations for the three and six months ended May 31, 2005 compared with the corresponding periods of 2004. This discussion should be read in conjunction with our 2004 Annual MD&A and 2004 Annual audited Consolidated Financial Statements and Notes. The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Percentage changes are calculated using numbers rounded to the decimals that appear in this MD&A. All dollar amounts are in Canadian dollars unless otherwise indicated.

There have been no material changes to the information discussed in the following sections of the 2004 Annual MD&A: "Critical Accounting Policies," "Factors that May Affect Future Results," "Off Balance Sheet Arrangements," "Contractual Obligations" and "Intercompany and Related Party Transactions." There is one update to the "Government Regulations" section. The 2005 Federal Budget eliminated the restriction on foreign content in tax-deferred savings plans such as RSPs. Accordingly, readers should refer to our 2004 Annual MD&A to gain a further understanding of how these matters may impact our operating results.

## Overview

AGF Management Limited ("AGF"), with approximately \$32.0 billion in Assets Under Management ("AUM"), is one of Canada's largest independent mutual fund and investment management companies, with operations in Canada, the United Kingdom, Ireland, Singapore, China and Japan. We commenced operations in 1957 with one of the first mutual funds available to Canadians wishing to invest internationally and as at May 31, 2005 offered over 50 mutual funds to investment advisors and their clients.

While the Canadian mutual fund business remains the mainstay of our operations, representing 67.6% of AUM, a growing portion of our revenues are now being earned from our institutional and private investment management AUM.

As at May 31, 2005, institutional and private investment management AUM grew to \$10.4 billion, or 32.4% of total AUM, an increase of 66.0% over May 31, 2004. This increase is primarily due to new investment management mandates and the acquisition of Cypress Capital Management Ltd. ("Cypress") in June 2004.

For purposes of this discussion, the operations of AGF Management Limited and our subsidiary companies are referred to as "we," "us," "our" or the "Company." The financial results relating to the operations have been reported in three segments: Investment Management Operations, Fund Administration Operations and Trust Company Operations.

## Strategy and Highlights

As stated in our 2004 Annual MD&A, our overall business strategy is to help identify and facilitate opportunities for our business segments and ensure segment strategies are aligned with the overall corporate strategy of targeting sustainability, profitability and value for our shareholders over the long term. The result of this long-term focus has been steadily increasing dividends. On March 30, 2005 we announced a 36.4% increase in the dividend rate to bring the quarterly rate to \$0.15 per share, up from \$0.11 per share. We are also committed to creating shareholder value through share repurchases. As of May 31, 2005, we have repurchased for cancellation 1.16 million AGF Class B non-voting shares under our normal course issuer bid.

We remain committed to our strategy and believe the financial and operating results for the three and six months ended May 31, 2005 reflect continued progress.

### Investment Management Operations

The strategic priorities for our investment management operations, which are detailed in the 2004 Annual MD&A, include reinforcing AGF's investment management excellence, building a client-centric organization focused on multi-channel distribution and pursuing strategic acquisitions to supplement organic growth. Consistent with our stated strategy, during the second quarter of fiscal 2005 we achieved the following:

- Announced an agreement to acquire the management of the mutual fund assets of ING Investment Management Inc. AGF will acquire the right to manage 14 funds with approximately \$240 million in assets, which will be merged into comparable AGF funds. The \$130 million ING Canadian Dividend Income Fund will be renamed AGF Dividend Income Fund and will form part of AGF's yield continuum, which is a full suite of dividend and income products offered by AGF. ING unitholders approved the transaction on June 8, 2005. The transaction is expected to close on or about August 5, 2005, and is subject to regulatory approval.
- Our two new income-generating funds – AGF Monthly High Income Fund and AGF Diversified Dividend Income Fund – which were launched during our first fiscal quarter, have already attracted approximately \$40 million in assets.
- Harmony, AGF's wrap program, which reached over \$1 billion in assets under management earlier in the year, set a monthly record in March 2005 with net sales of \$55.9 million.
- Appointed Gary Wing as Senior Vice-President, Institutional Investment Services. Gary is a veteran in the management of institutional sales teams and his primary objective will be to win new mandates and retain existing business by applying AGF's client-centric model.
- Subsequent to quarter end, appointed Martin Hubbes as Senior Vice-President and Chief Investment Officer. Martin is an accomplished portfolio manager with broad administrative experience and he will play a pivotal role in guiding the future growth of AGF's Investment Management Operations.

### Fund Administration Operations

Unisen's vision is to be the provider of choice for investment services and technology in Canada and other selected markets. Unisen has over 11 years of operational experience in providing technology and back office services and has combined the strength of several established companies to offer its clients a range of services. Unisen's business model, together with its leading-edge technology solutions, has been designed to support industry growth.

For mutual funds, segregated funds, wrap accounts and other specialized investment products, Unisen provides unitized record-keeping, fund and trust accounting, dealer support and multilingual client services. This comprehensive suite of services allows clients to focus on core competencies, such as investment management and distribution.

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

### Trust Company Operations

The Trust Company Operations segment strives to earn a strong financial return as well as maximize synergies with the Investment Management Operations segment by utilizing effective targeted marketing, providing tailored products that directly serve advisor needs, adhering to disciplined loan-underwriting standards and managing expenses to keep costs stable while assets grow.

We expect demand for investment loans to remain strong. We believe mortgage loan growth will be sustained by broadening our distribution within Canada.

## Key Performance Indicators and Non-GAAP Measures

We measure the success of our strategies using a number of key performance indicators that are defined and described in our 2004 Annual MD&A. With the exception of revenue, the following key performance indicators are not measurements in accordance with Canadian GAAP and should not be considered as an alternative to net income or any other measure of performance under Canadian GAAP. Segment discussions include a review of key performance indicators that are relevant to each segment. Key performance indicators include:

- assets under management
- investment performance (market appreciation of fund portfolios)
- net sales
- revenue
- EBITDA
- cash flow from operations
- return on equity (ROE) and return on investment (ROI)
- loan asset growth
- efficiency ratio

Two non-GAAP measures that we use throughout this discussion are defined as follows:

### EBITDA

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

### Cash Flow from Operations

We report cash flow from operations before net changes in non-cash balances related to operations. Cash flow from operations helps to assess the ability of the business to generate cash, which is used to pay dividends, repurchase shares, pay down debt and fund other needs for cash.

## Consolidated Operating Results

Our Consolidated Operating Results for the three and six months ended May 31, 2005 and 2004 are as follows:

(\$ millions, except per share amounts)	Three months ended May 31,			Six months ended May 31,		
	2005	2004	% change	2005	2004	% change
<b>Revenue</b>						
Investment management operations	\$ 127.2	\$ 133.4	(4.6%)	\$ 255.2	\$ 264.4	(3.5%)
Fund administration operations	28.7	34.5	(16.8%)	58.8	66.3	(11.3%)
Trust company operations	16.0	11.1	44.1%	28.7	20.7	38.6%
Other	0.2	1.5	(86.7%)	0.5	1.9	(73.7%)
Intersegment eliminations	(14.0)	(14.0)	-	(27.7)	(27.8)	(0.4%)
	158.1	166.5	(5.0%)	315.5	325.5	(3.1%)
<b>Expenses</b>						
Investment management operations	66.3	63.7	4.1%	129.8	125.3	3.6%
Fund administration operations	22.7	30.0	(24.3%)	49.7	57.6	(13.7%)
Trust company operations <sup>1</sup>	12.6	7.8	61.5%	23.5	15.9	47.8%
Intersegment eliminations	(14.0)	(14.0)	-	(27.7)	(27.8)	(0.4%)
	87.6	87.5	0.1%	175.3	171.0	2.5%
<b>EBITDA<sup>2</sup></b>	70.5	79.0	(10.8%)	140.2	154.5	(9.3%)
Amortization	38.0	40.8	(6.9%)	76.0	80.4	(5.5%)
Interest expense	1.4	1.3	7.7%	2.8	3.7	(24.3%)
Income taxes	8.7	2.9	200.0%	17.9	12.6	42.1%
<b>Net income</b>	\$ 22.4	\$ 34.0	(34.1%)	\$ 43.5	\$ 57.8	(24.7%)
<b>Cash flow from operations<sup>3</sup></b>	\$ 63.5	\$ 68.4	(7.2%)	\$ 124.3	\$ 130.0	(4.4%)
<b>Per Share Amounts - Diluted</b>						
Cash flow from operations	\$ 0.70	\$ 0.74	(5.4%)	\$ 1.37	\$ 1.41	(2.8%)
Earnings	\$ 0.25	\$ 0.37	(32.4%)	\$ 0.48	\$ 0.63	(23.8%)

<sup>1</sup> Includes interest expense related to deposits, the funds of which are used in our consumer loan and mortgage programs.

<sup>2</sup> As previously defined, see the "Key Performance Indicators and Non-GAAP Measures – EBITDA" section. The items required to reconcile EBITDA to Net Income, a defined term under Canadian GAAP, are detailed above.

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



Revenue for the three and six months ended May 31, 2005 declined by 5.0% and 3.1%, respectively, as compared with the corresponding periods in 2004. For the three months ended May 31, 2005, the decline is attributable to decreases of 4.6% and 16.8% in Investment Management and Fund Administration Operations, respectively, offset in part by solid revenue growth of 44.1% in Trust Company Operations. For the six months ended May 31, 2005, revenue from Investment Management and Fund Administration Operations were down from the prior year by 3.5% and 11.3%, respectively, while revenue from Trust Company Operations was up by 38.6%.

Other revenue, which is primarily derived from our equity interest in Smith & Williamson Holdings Limited ("S&WHL"), declined for the three and six months ended May 31, 2005 as compared with the corresponding periods in 2004. The decline was primarily a result of premise relocation expenses to accommodate the consolidation of the business operations of Smith & Williamson with those of NCL in a single location in London. This development, along with the completion of systems integration later this year, should bring significant benefits to S&WHL.

Expenses for the three and six months ended May 31, 2005 increased by 0.1% and 2.5%, respectively, as compared with the corresponding periods in 2004. Investment Management Operations expenses increased by 4.1% and 3.6%, respectively, for the three and six months ended May 31, 2005 as compared with the corresponding periods in 2004. Expenses are higher due to the continued building of the investment management team, sales and marketing efforts and the impact of Cypress, which was acquired in June 2004. Fund Administration Operations expenses for the three and six months ended May 31, 2005 declined by 24.3% and 13.7%, respectively, compared with the corresponding periods in 2004 as a result of cost reductions and the reversal of a provision for vacated premises. Trust Company Operations expenses increased by 61.5% and 47.8%, respectively, for the three and six months ended May 31, 2005 as compared with the corresponding periods in 2004. These increases were driven by the strong growth in loan assets. The expense increases exceeded the increases in revenue because the trust company incurs costs to acquire business and is required to establish a general loan loss provision during the period in which a loan is originated.

The revenue and expense impact contributed to the declines in EBITDA of 10.8% and 9.3% for the three and six months ended May 31, 2005, respectively, from the corresponding periods of 2004.

Amortization expenses decreased by 6.9% and 5.5% in the three and six months ended May 31, 2005, respectively, compared with the corresponding periods in 2004. For the three and six months ended May 31, 2005, amortization of deferred selling commissions in the Investment Management Operations segment accounted for \$28.5 million and \$57.0 million, respectively, (2004 - \$31.0 million and \$61.2 million) of the total amortization expense and was the primary driver of the period-over-period decreases.

Interest expense increased by 7.7% from the prior-year period for the three months ended May 31, 2005. However, interest expense decreased by 24.3% from the comparable prior-year period for the six months ended May 31, 2005. Interest expense is dependent upon the average outstanding loan balances and interest rates, after considering the effect of interest rate swaps.

Income tax expense for the three months ended May 31, 2005 was \$8.7 million as compared with \$2.9 million in the second fiscal quarter of 2004. For the six months ended May 31, 2005, income tax expense was \$17.9 million as compared with \$12.6 million in the corresponding period in 2004. The effective tax rate for the first six months of 2005 was 29.1% as compared with 17.9% in the corresponding period of the prior year. Our tax rate and corresponding tax expense were higher in 2005 than in 2004 because we acquired and utilized tax benefits during 2004.

The impact of the above revenue and expense items resulted in net income of \$22.4 million in the quarter ended May 31, 2005 as compared with \$34.0 million in the comparable period of 2004. For the six months ended May 31, 2005, net income was \$43.5 million compared with \$57.8 million in the prior-year period. Basic and fully diluted earnings per share were \$0.25 per share in the second quarter of 2005 as compared with \$0.37 per share in the second quarter of 2004.

Cash flow from operations for the three and six months ended May 31, 2005 declined by 7.2% and 4.4%, respectively, from the corresponding periods of 2004. On a diluted per share basis, cash flow from operations for the three and six months ended May 31, 2005 was \$0.70 per share and \$1.37 per share, respectively (2004 - \$0.74 and \$1.41 per share).

A further discussion of the results of each business segment for the three and six months ended May 31, 2005 as compared with May 31, 2004 follows.

## Business Segment Performance

We report on three business segments: Investment Management Operations, Fund Administration Operations and Trust Company Operations. The "Other" segment includes the results of S&WHL, which are accounted for by the equity method and the interest expense on our long-term debt. AGF's reportable segments are strategic business units that offer different products and services.

## Investment Management Operations

### Business and Industry Profile

Our Investment Management Operations segment provides products and services across the wealth continuum, including mutual funds, wrap products and private investment management. Our products are delivered through multiple channels including advisors, financial planners, banks, life insurance companies and consultants.

Investment management remains a highly competitive business with numerous domestic as well as foreign players serving the market. We believe that although the mutual fund business is reaching the early stages of maturity, there are opportunities for growth.

### Assets Under Management

The primary sources of revenue for AGF's investment management operations are management and advisory fees. The amount of management and advisory fees is dependent on the level and composition of AUM. Under the management and investment advisory contracts between AGF and each of the mutual funds, we are entitled to monthly fees based on a specified percentage of the average daily net asset value of the respective fund. In addition, we earn fees on our institutional and private investment management AUM. As a result, the level of AUM has a significant influence on financial results. The following table illustrates the composition of the changes in total AUM during the three and six months ended May 31, 2005 and May 31, 2004:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2005	2004	% change	2005	2004	% change
Mutual fund AUM, beginning of period	\$ 22,657	\$ 25,128	(9.8%)	\$ 22,747	\$ 23,168	(1.8%)
Gross sales of mutual funds	676	714	(5.3%)	1,367	1,499	(8.8%)
Redemptions of mutual funds	(1,279)	(1,087)	17.7%	(3,597)	(2,287)	57.3%
Net mutual fund redemptions	(603)	(373)	61.7%	(2,230)	(788)	183.0%
Market appreciation (depreciation) of fund portfolios	(404)	(523)	(22.8%)	1,133	1,852	(38.8%)
Mutual fund AUM, end of period	\$ 21,650	\$ 24,232	(10.7%)	\$ 21,650	\$ 24,232	(10.7%)
Institutional and PIM AUM	10,354	6,236	66.0%	10,354	6,236	66.0%
Total AUM	\$ 32,004	\$ 30,468	5.0%	\$ 32,004	\$ 30,468	5.0%
Average daily mutual fund AUM for the period	\$ 21,929	\$ 24,503	(10.5%)	\$ 22,311	\$ 24,438	(8.7%)

In the six-month period ended May 31, 2005, strong investment performance was offset by \$2.2 billion in net redemptions, including \$1.2 billion in institutional mutual fund redemptions, resulting in a decline in mutual fund AUM from \$22.7 billion at November 30, 2004 to \$21.7 billion as at May 31, 2005. For the three months ended May 31, 2005, net redemptions of \$0.6 billion coupled with market depreciation of \$0.4 billion contributed to a 4.4% drop in mutual fund AUM since February 28, 2005. Total AUM, however, has increased by 5.0% compared with May 31, 2004 on the strength of growing institutional and private investment management AUM. During the first half of 2005, institutional and PIM assets were up \$1.7 billion, primarily due to new domestic and international mandates.

Stock market performance influences the level of AUM. During the three- and six-month periods ended May 31, 2005, the Canadian-dollar-adjusted S&P 500 Index rose 0.5% and 6.7%, respectively. Over the same periods, the Canadian-dollar-adjusted NASDAQ Index rose 2.3% and 3.7%, respectively, and the S&P/TSX Composite Index fell by 0.6% and rose by 6.4%. The aggregate market depreciation of our mutual fund portfolios for the three months ended May 31, 2005 divided by the average daily mutual fund AUM for the quarter was 1.8%. For the six months ended May 31, 2005, the aggregate market appreciation of our mutual fund portfolios divided by the average daily mutual fund AUM was 5.1%.

The impact of the U.S. dollar increase relative to the Canadian dollar on the market value of AGF mutual funds since November 30, 2004 has been an increase in AUM of \$0.2 billion. Since February 28, 2005, the impact of the U.S. dollar increase has been an increase in AUM of \$0.1 billion.

## Financial and Operational Results

The Investment Management Operations segment results for the three and six months ended May 31, 2005 and 2004 are as follows:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2005	2004	% change	2005	2004	% change
Revenue						
Net management and advisory fees	\$ 101.7	\$ 112.8	(9.8%)	\$ 205.3	\$ 223.7	(8.2%)
Administration fees and other revenue	15.6	10.7	45.8%	29.1	20.7	40.6%
Deferred sales charges	9.8	9.7	1.0%	20.4	19.6	4.1%
Investment income	0.1	0.2	(50.0%)	0.4	0.4	-
	127.2	133.4	(4.6%)	255.2	264.4	(3.5%)
Expenses						
Selling, general and administrative	31.3	26.8	16.8%	61.4	52.4	17.2%
Trailing commissions	28.4	28.8	(1.4%)	54.7	56.8	(3.7%)
Investment advisory fees	6.6	8.1	(18.5%)	13.7	16.1	(14.9%)
	66.3	63.7	4.1%	129.8	125.3	3.6%
EBITDA <sup>1</sup>	60.9	69.7	(12.6%)	125.4	139.1	(9.8%)
Amortization	33.8	36.6	(7.7%)	67.7	72.2	(6.2%)
Income before taxes and non-segmented items	\$ 27.1	\$ 33.1	(18.1%)	\$ 57.7	\$ 66.9	(13.8%)

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

## Revenue

For the three- and six-month periods ended May 31, 2005, revenue for the Investment Management Operations segment declined 4.6% and 3.5%, respectively, from the previous-year periods, with changes in the categories being:

### Net Management and Advisory Fees

The year-to-year decline in average daily mutual fund AUM in the second quarter of fiscal 2005 of 10.5% directly contributed to a 9.8% decrease in net management and advisory fee revenue from the corresponding period in 2004. For the six months ended May 31, 2005, average daily mutual fund AUM declined by 8.7%, directly contributing to an 8.2% drop in net management and advisory fee revenue as compared with the corresponding period in 2004.

Management and advisory fee revenue is reported net of distribution fees paid to limited partnerships and other third-party financing entities of \$3.4 million (2004 - \$4.2 million) for the three months ended May 31, 2005 and \$6.9 million (2004 - \$8.8 million) for the six months ended May 31, 2005.

### Administration Fees and Other Revenue

Administration fees and other revenue, which includes fees earned on Harmony, institutional and private investment management AUM, increased by 45.8% and 40.6% for the three and six months ended May 31, 2005 as compared with the corresponding periods in 2004. There has been strong growth in Harmony revenues, which was augmented by the acquisition of Cypress in June 2004.

### Deferred Sales Charges

We receive Deferred Sales Charges upon redemption of securities sold on the contingent DSC or "back-end" commission basis for which we financed the selling commissions paid to the dealer. The DSC is generally 5.5% of the original subscription price of the funds purchased if the funds are redeemed within the first two years and declines to zero after seven years. DSC revenue fluctuates based on the level of redemptions, the age of the assets being redeemed and the proportion of redemptions composed of "back-end" assets.

DSC revenues for the three and six months ended May 31, 2005 increased by 1.0% and 4.1%, respectively, from the corresponding periods in 2004, reflecting higher redemption levels.

## Expenses

For the three- and six-month periods ended May 31, 2005, expenses increased by 4.1% and 3.6%, respectively, from the previous-year periods. Changes in specific categories are described in the discussion that follows.

### Selling, General and Administrative Expenses

SG&A expenses for the three- and six-month periods ending May 31, 2005 were \$31.3 million and \$61.4 million, respectively, representing a 16.8% and 17.2% increase in SG&A expenses compared with both periods of 2004. This increase was the result of costs associated with the continued building of AGF's investment management and sales teams and the inclusion of operating expenses related to Cypress and P.J. Doherty and Associates Co. Ltd.

### Trailing Commissions

Trailing commissions paid to investment dealers are dependent on total AUM, the proportion of mutual fund AUM sold on a front-end versus back-end commission basis, and the proportion of equity fund AUM versus fixed income fund AUM. Annualized trailing commissions as a percentage of average daily mutual fund AUM increased to 0.518% for the three months ended May 31, 2005 from 0.470% in the comparable 2004 period. For the six months ended May 31, 2005, annualized trailing commissions as a percentage of average daily mutual fund AUM increased to 0.490% from 0.445% in the 2004 period. The increases are due to an increased proportion of mutual fund AUM sold on a front-end basis and also to redemptions of institutional AUM on which trailing commissions are not paid.

### Investment Advisory Fees

External investment advisory fees decreased by 18.5% and 14.9%, respectively, for the three- and six-month periods ended May 31, 2005 compared with the prior-year periods. This is due to a reduction in mutual fund AUM managed by subadvisors compared with the prior year.

### EBITDA

EBITDA for the Investment Management Operations segment were \$60.9 million for the three months ended May 31, 2005, a decrease of 12.6% from \$69.7 million for the same period of fiscal 2004. For the six months ended May 31, 2005, EBITDA were \$125.4 million compared with \$139.1 million in the prior-year period, representing a decrease of 9.8%.

### Amortization

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

We internally finance all selling commissions paid. These selling commissions are capitalized and are amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule. Amortization expense related to deferred selling commissions were \$28.5 million and \$57.0 million, respectively, in the three and six months ended May 31, 2005, moderately lower than the \$31.0 million and \$61.2 million in the comparable periods in 2004.

During the second quarter of fiscal 2005, we paid \$17.3 million in selling commissions, compared with \$17.2 million in 2004. As at May 31, 2005, the unamortized balance of deferred selling commissions stood at \$302.8 million, a decrease of \$24.8 million from the November 30, 2004 balance of \$327.6 million. The contingent deferred sales charges that would be received if all of the DSC securities were redeemed at May 31, 2005 were estimated to be approximately \$402.2 million (2004 - \$457.6 million).

## Fund Administration Operations

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

### Business and Industry Profile

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

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

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

## Financial and Operational Results

The Fund Administration Operations segment results for the three and six months ended May 31, 2005 and May 31, 2004 are as follows:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2005	2004	% change	2005	2004	% change
Administration fees and other revenue	\$ 28.7	\$ 34.5	(16.8%)	\$ 58.8	\$ 66.3	(11.3%)
Selling, general and administrative	22.7	30.0	(24.3%)	49.7	57.6	(13.7%)
EBITDA <sup>1</sup>	6.0	4.5	33.3%	9.1	8.7	4.6%
Amortization	3.9	3.9	–	7.8	7.6	2.6%
Income before income taxes and non-segmented items	\$ 2.1	\$ 0.6	250.0%	\$ 1.3	\$ 1.1	18.2%

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

### Revenue

Revenue for the Fund Administration Operations segment decreased 16.8% and 11.3%, respectively, for the three- and six-month periods ended May 31, 2005 from the prior-year periods. The decrease in the second quarter of 2005 is primarily attributable to delays of certain project work at Investmaster. For the six months ended May 31, 2005, a decline in revenue experienced in the first quarter of 2005 at Unisen also contributed to the decrease.

### Selling, General and Administrative Expenses

Rationalization of cost structure has resulted in reduced SG&A expenses, which have declined from the prior year by 24.3% for the three months ended May 31, 2005 and 13.7% for the six months ended May 31, 2005.

The three-month period ended May 31, 2005 also benefited from the partial reversal of the \$3.0 million provision related to vacated facilities that was established by Unisen in 2004. The \$2.5 million reversal was recorded because the lease was assigned to AGF Management Limited for use by it and its subsidiaries. This reduction in expenses was somewhat offset by restructuring costs of \$0.7 million booked during the three months ended May 31, 2005.

### EBITDA

EBITDA for the Fund Administration Operations segment increased by 33.3% and 4.6%, respectively, for the three- and six-month periods ended May 31, 2005 compared with the prior-year periods.

### Amortization of Customer Contracts and Relationships

Amortization of customer contracts and relationships amounted to \$1.5 million and \$3.0 million, respectively, for the three- and six-month periods ended May 31, 2005, unchanged from the corresponding periods in 2004.

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

Amortization of property, equipment and other intangible assets includes the amortization over a period of five years of software acquired as part of the Jewelstone and Consort Information Systems Limited ("CISL") acquisitions. These acquisitions resulted in the addition of software amounting to \$9.3 million and \$9.5 million, respectively.

## Trust Company Operations

### Business and Industry Profile

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

### Financial and Operational Results

The Trust Company Operations segment results for the three and six months ended May 31, 2005 and May 31, 2004 are as follows:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2005	2004	% change	2005	2004	% change
Interest, administration fees and other revenue	\$ 16.0	\$ 11.1	44.1%	\$ 28.7	\$ 20.7	38.6%
Expenses						
Selling, general and administrative	4.2	2.9	44.8%	8.0	5.2	53.8%
Interest on deposits	7.1	4.2	69.0%	12.8	8.9	43.8%
Provision for loan losses	1.3	0.7	85.7%	2.7	1.8	50.0%
	12.6	7.8	61.5%	23.5	15.9	47.8%
EBITDA <sup>1</sup>	3.4	3.3	3.0%	5.2	4.8	8.3%
Amortization	0.2	0.3	(33.3%)	0.5	0.6	(16.7%)
Income before taxes and non-segmented items	\$ 3.2	\$ 3.0	6.7%	\$ 4.7	\$ 4.2	11.9%

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

#### Revenue

Revenue for the three- and six-month periods ended May 31, 2005 increased by 44.1% and 38.6%, respectively, compared with the prior-year periods. The increases are attributable to a 62% year-over-year increase in the mortgage loan portfolio and a 67% year-over-year increase in the consumer loan portfolio. Revenue in the three and six months ended May 31, 2004 included a \$0.9 million gain on sale of securities recorded in the second quarter of 2004.

#### Selling, General and Administrative Expenses

The increases in SG&A expenses of 44.8% and 53.8%, respectively, in the three and six months ending May 31, 2005 over the respective periods in 2004 are a result of higher staffing levels and increased business volume.

#### Provision for Loan Losses

The provision for loan losses increased by 85.7% for the three months ended May 31, 2005 and by 50.0% in the first six months of 2005, as compared with 2004. The increase is attributable to the increase in our loan portfolios. Credit quality of our loan portfolios is consistent with the prior year.

## EBITDA

Excluding the \$0.9 million gain recorded last year, EBITDA for the three- and six-month periods ending May 31, 2005 increased by 41.7% and 33.3%, respectively, compared with the prior-year periods. Including the gain recorded in 2004, EBITDA increased 3.0% in the three months ended May 31, 2005 and 8.3% in the six months ended May 31, 2005.

## Operational Performance

The table below highlights our key operational measures for the Trust Company Operations segment for the three- and six-month periods ended May 31, 2005 and May 31, 2004.

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2005	2004	% change	2005	2004	% change
Mortgage loan assets	\$ 383.1	\$ 236.5	62.0%	\$ 383.1	\$ 236.5	62.0%
Consumer loan assets	665.6	398.5	67.0%	665.6	398.5	67.0%
Other assets	77.7	84.3	(7.8%)	77.7	84.3	(7.8%)
Total assets	\$ 1,126.4	\$ 719.3	56.6%	\$ 1,126.4	\$ 719.3	56.6%
Net interest income <sup>1</sup>	\$ 7.2	\$ 4.8	50.0%	\$ 13.0	\$ 9.0	44.4%
Other income	0.9	1.6	(43.8%)	1.5	2.2	(31.8%)
Non-interest expenses	3.6	2.7	33.3%	7.1	5.2	36.5%
Provision for loan losses	1.3	0.7	85.7%	2.7	1.8	50.0%
Income before taxes and non-segmented items	\$ 3.2	\$ 3.0	6.7%	\$ 4.7	\$ 4.2	11.9%
Efficiency ratio <sup>2</sup>	44.4%	42.2%		49.0%	46.4%	
Assets-to-capital multiple	13.0	14.4		13.0	14.4	

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

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

## Loan Asset Growth

Loan assets experienced substantial growth during the first half of 2005 and for the second quarter of 2005 over 2004. The 2005 RSP season was very strong, resulting in higher levels of investment lending. Mortgage loans have also experienced impressive growth. As at May 31, 2005, non-accrual loans were \$1.4 million, or 0.13% of the loan portfolios.

## Efficiency Ratio

The efficiency ratio (non-interest expenses divided by the total of net interest income and fee income) is a key industry performance indicator utilized to ensure expenses are contained as the Trust business grows. The efficiency ratio increased during the three and six months ending May 31, 2005, partly due to the \$0.9 million gain on sale of securities recorded in the second quarter of 2004. High volume of business during the RSP season also contributed to a higher efficiency ratio. This ratio is forecast to decline over the remainder of the year, as scale increases and variable expenses related to high volumes of new business decline.



### Balance Sheet

Our balance sheet has grown significantly during the past year, with our financial position remaining solid. Total assets increased 56.6% from \$719.3 million on May 31, 2004 to \$1,126.4 million at May 31, 2005. Our assets-to-capital multiple stood at 13.0 times, down from 15.3 times at November 30, 2004, and well below our authorized multiple of 17.5 times. Our risk-based capital ratio was 10.9% at May 31, 2005. Liquid assets were equal to \$53.9 million in cash and cash equivalents at May 31, 2005.

### Loan Portfolio Credit

Due to higher loan balances, the general allowance for mortgage loan losses was increased during the quarter to \$1.6 million from \$0.8 million at May 31, 2004. The general allowance for consumer loan losses was increased during the quarter to \$4.1 million from \$2.7 million a year ago.

Approximately 60% of mortgage loan assets are insured. The average loan-to-value ratio in our mortgage business is 65%. RSP loan credit quality remains stable. We have strong security for non-RSP investment loans, and loan losses during the history of the program have been minimal.

## Liquidity and Capital Resources

Cash flow generated from operating activities (before net change in non-cash balances related to operations) was \$63.5 million and \$124.3 million, respectively, for the three and six months ended May 31, 2005, compared with \$68.4 million and \$130.0 million in the comparable periods of 2004. Our free cash flow (defined as cash flow from operations less selling commissions paid) was \$46.2 million and \$92.1 million, respectively, for the three and six months ended May 31, 2005, compared with \$51.1 million and \$96.7 million in the comparable periods of 2004.

Cash flow was used primarily to fund the following:

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2005	2004	2005	2004
Payment of dividends	\$ 13.6	\$ 10.1	\$ 23.6	\$ 17.4
Repurchase of AGF Class B shares for cancellation	18.0	11.0	19.4	28.7
Acquisitions	-	-	1.5	9.0
Decrease (increase) in bank loan	16.9	13.9	0.7	(23.3)
Purchase of investments	-	13.2	2.9	14.8
Cash required to fund (generated from) working capital	(19.2)	(0.2)	9.0	42.3
Trust Company loan growth in excess of deposit growth	22.6	3.5	86.1	20.0
	\$ 51.9	\$ 51.5	\$ 143.2	\$ 108.9

Dividends paid in the second quarter of 2005 totaled \$13.6 million (2004 - \$10.1 million), reflecting the increase in our quarterly dividend rate from \$0.11 per share to \$0.15 per share. We announced the dividend rate increase on March 30, 2005.

During the three months ended May 31, 2005, we used \$18.0 million (2004 - \$11.0 million) of free cash flow to repurchase 1,085,100 Class B shares of AGF at an average price of \$16.63 per share. These shares repurchased are in addition to the 75,000 AGF Class B shares, that were repurchased in the first quarter of 2005. We remain committed to the share buy back program and anticipate that we will remain active in the final two quarters of fiscal 2005.

AGF Trust has experienced profitable loan growth and as loans grow, the Trust Company utilizes cash. During the three months ended May 31, 2005, AGF Trust Company's loan growth exceeded deposit growth by \$22.6 million (2004 - \$3.5 million).

Consolidated cash and cash equivalents amounted to \$64.1 million as at May 31, 2005, compared with \$75.6 million at May 31, 2004 and \$71.3 million at February 28, 2005.

We have a 10-year prime rate-based revolving term loan facility to a maximum of \$150.0 million, of which \$89.7 million was available to be drawn as of May 31, 2005. This facility will be available to meet future operational and investment needs. We anticipate that cash flow from operations, together with the available loan facility, will be sufficient in the foreseeable future to implement our business plan, finance selling commissions, satisfy regulatory requirements, service debt repayment obligations, meet capital spending needs and pay quarterly dividends.

Our bank loan decreased by \$16.9 million (2004 - \$13.9 million) in the three months ended May 31, 2005. Our long-term debt-to-equity ratio decreased from 0.10:1 at February 28, 2005 to 0.09:1 at May 31, 2005.

### Hedging

We determined in November 2004 that we would no longer hedge our currency exposure in connection with our U.K. pound denominated long-term investment in S&WHL. As a result of the U.K. pound strengthening in value against the Canadian dollar during the six months ended May 31, 2005, our investment in S&WHL increased by \$0.6 million with a corresponding \$0.5 million increase in the foreign currency translation adjustment account and an increase of \$0.1 million in future income tax liabilities. Please refer to the 2004 Annual Consolidated Financial Statements and Notes as well as the Consolidated Financial Statements and Notes for the six months ended May 31, 2005 for details.

Approximately 85% of AGF Trust Company's assets generally have a floating rate of interest whereas its liabilities have a fixed rate of interest. As a result, AGF Trust is exposed to movements in interest rates. To hedge this risk, AGF Trust Company has entered into interest rate swap transactions with four Canadian chartered banks. The swap transactions expire between June 30, 2005 and May 31, 2010 and involve the exchange of either the one-month bankers' acceptance rate or the three-month bankers' acceptance rate to receive fixed interest rates. As at May 31, 2005, the aggregate notional amount of the swap transactions was \$759.7 million. The aggregate fair value of the swap transactions, which represents the amount that would be received by AGF Trust Company if the transactions were terminated at May 31, 2005, was \$11.5 million (2004 - \$1.9 million).

## Selected Quarterly Information

(\$ millions, except per share amounts) For the three month period ended	May 31, 2005	Feb. 28, 2005	Nov. 30, 2004	Aug. 31, 2004
Revenue	\$ 158.1	\$ 157.4	\$ 156.6	\$ 158.2
Cash flow from operations <sup>1</sup>	63.5	60.8	15.4	62.4
EBITDA <sup>2</sup>	70.5	69.9	21.8	76.2
Pretax income (loss)	31.1	30.4	(18.7)	33.2
Net income (loss)	22.4	21.2	(8.1)	27.6
Net Income (Loss) Per Share				
Basic	\$ 0.25	\$ 0.23	\$ (0.08)	\$ 0.30
Diluted	\$ 0.25	\$ 0.23	\$ (0.09)	\$ 0.30
Cash Flow From Operations Per Share <sup>1</sup>				
Basic	\$ 0.70	\$ 0.67	\$ 0.17	\$ 0.69
Diluted	\$ 0.70	\$ 0.67	\$ 0.17	\$ 0.68
Weighted Average Fully Diluted Shares	90,886,073	91,085,474	91,798,233	91,941,879

(\$ millions, except per share amounts) For the three month period ended	May 31, 2004	Feb. 29, 2004	Nov. 30, 2003	Aug. 31, 2003
Revenue	\$ 166.5	\$ 159.1	\$ 153.9	\$ 147.4
Cash flow from operations <sup>1</sup>	68.4	61.6	50.0	55.8
EBITDA <sup>2</sup>	79.0	75.5	63.4	72.4
Pretax income	36.9	33.5	20.6	30.4
Net income (loss)	34.0	23.8	(25.8)	21.8
Net Income (Loss) Per Share				
Basic	\$ 0.37	\$ 0.26	\$ (0.28)	\$ 0.24
Diluted	\$ 0.37	\$ 0.26	\$ (0.27)	\$ 0.23
Cash Flow From Operations Per Share <sup>1</sup>				
Basic	\$ 0.75	\$ 0.67	\$ 0.55	\$ 0.61
Diluted	\$ 0.74	\$ 0.67	\$ 0.54	\$ 0.60
Weighted Average Fully Diluted Shares	91,889,879	92,230,930	92,846,779	92,762,982

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

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

## Additional Information

Additional information relating to the Company can be found in our Consolidated Financial Statements and accompanying notes for the six months ended May 31, 2005, our 2004 Annual MD&A and Consolidated Financial Statements, our 2004 AIF and other documents filed with applicable securities regulators in Canada, and may be accessed at [www.sedar.com](http://www.sedar.com).

AGF Management Limited  
consolidated balance sheets

(in thousands of dollars)	May 31, 2005 (unaudited)	November 30, 2004 (audited)
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 64,081	\$ 118,805
Short-term investments	22,560	20,110
Accounts receivable and other assets	73,509	63,099
	160,150	202,014
Mortgages and consumer loans	1,048,779	707,306
Investment in associated company (note 2)	109,162	108,802
Other investments	7,090	7,532
Management contracts	473,670	473,670
Customer contracts, relationships and investment advisory contracts, net of accumulated amortization	113,494	123,862
Deferred selling commissions, net of accumulated amortization	302,780	327,618
Property, equipment and other intangible assets, net of accumulated amortization	48,104	52,356
Goodwill	160,937	160,794
Other assets	5,484	3,892
	\$ 2,429,650	\$ 2,167,846
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 105,511	\$ 102,818
Long-term debt due within one year (note 3)	26,873	44,553
Income taxes payable	1,723	1,046
	134,107	148,417
Deposits	1,019,332	761,232
Long-term debt (note 3)	85,330	69,706
Participation units	6,157	6,157
Future income taxes	261,232	262,383
Leasehold inducements	4,199	4,370
Other liabilities	945	1,215
	1,511,302	1,253,480
Shareholders' Equity		
Capital stock (note 4)	390,566	394,125
Contributed surplus	3,221	1,781
Retained earnings	523,291	517,681
Foreign currency translation adjustment	1,270	779
	918,348	914,366
	\$ 2,429,650	\$ 2,167,846

(See accompanying notes to consolidated financial statements)

(in thousands of dollars, except per share amounts) (unaudited)	Three months ended May 31,		Six months ended May 31,	
	2005	2004	2005	2004
<b>Revenue</b>				
Net management and advisory fees	\$ 101,739	\$ 112,850	\$ 205,332	\$ 223,733
Administration fees, interest and other revenue	46,520	43,668	89,399	81,811
Deferred sales charges	9,815	9,722	20,403	19,616
Investment income	69	211	377	397
	158,143	166,451	315,511	325,557
<b>Expenses</b>				
Selling, general and administrative	44,213	45,678	91,355	87,498
Trailing commissions	28,392	28,818	54,682	56,835
Investment advisory fees	6,604	8,066	13,721	16,090
Amortization of deferred selling commissions	28,492	30,972	57,005	61,225
Amortization of customer contracts, relationships and investment advisory contracts	5,183	4,746	10,367	9,346
Amortization of property, equipment and other intangible assets	4,322	5,035	8,659	9,815
Interest on Trust Company deposits	7,141	4,168	12,773	8,869
Interest expense	1,417	1,293	2,837	3,669
Provision for Trust Company loan losses	1,303	742	2,681	1,800
	127,067	129,518	254,080	255,147
<b>Income before income taxes</b>	31,076	36,933	61,431	70,410
<b>Income Tax Expense (Reduction)</b>				
Current	8,940	9,425	19,145	23,064
Future	(223)	(6,508)	(1,250)	(10,443)
	8,717	2,917	17,895	12,621
<b>Net income for the period</b>	\$ 22,359	\$ 34,016	\$ 43,536	\$ 57,789
<b>Earnings Per Share</b>				
<i>Basic</i>	\$ 0.25	\$ 0.37	\$ 0.48	\$ 0.63
<i>Diluted</i>	\$ 0.25	\$ 0.37	\$ 0.48	\$ 0.63

(See accompanying notes to consolidated financial statements)

AGF Management Limited  
consolidated statements of retained earnings

(in thousands of dollars) (unaudited)	Three months ended May 31,		Six months ended May 31,	
	2005	2004	2005	2004
<b>Retained earnings, beginning of period</b>	\$ 527,876	\$ 509,302	\$ 517,681	\$ 506,274
Net income for the period	22,359	34,016	43,536	57,789
	550,235	543,318	561,217	564,063
Deduct:				
Dividends on AGF Class A voting common shares and AGF Class B non-voting shares	13,614	10,057	23,602	17,434
Excess paid over book value of AGF Class B non-voting shares purchased for cancellation	13,330	8,468	14,324	21,836
	26,944	18,525	37,926	39,270
<b>Retained earnings, end of period</b>	\$ 523,291	\$ 524,793	\$ 523,291	\$ 524,793

(See accompanying notes to consolidated financial statements)

(in thousands of dollars)	Three months ended May 31,		Six months ended May 31,	
(unaudited)	2005	2004	2005	2004
<b>Operating Activities</b>				
Net income for the period	\$ 22,359	\$ 34,016	\$ 43,536	\$ 57,789
Items not affecting cash				
Amortization of deferred selling commissions	28,492	30,972	57,005	61,225
Amortization of customer contracts, relationships and investment advisory contracts	5,183	4,746	10,367	9,346
Amortization of property, equipment and other intangible assets	4,322	5,035	8,659	9,815
Future income taxes	(223)	(6,508)	(1,250)	(10,443)
Mark-to-market on swap transactions	(169)	(522)	(270)	(28)
Other	3,540	625	6,255	2,292
	63,504	68,364	124,302	129,996
Net (increase) decrease in non-cash balances related to operations	19,213	217	(8,965)	(42,296)
	82,717	68,581	115,337	87,700
<b>Financing Activities</b>				
Purchase of Class B non-voting shares for cancellation	(18,048)	(11,043)	(19,368)	(28,697)
Issuance of Class B non-voting shares	1,164	1,430	1,487	1,837
Dividends	(13,614)	(10,057)	(23,602)	(17,434)
Increase (decrease) in bank loan	(16,850)	(13,850)	(700)	23,300
Net decrease in notes payable and capital lease obligations	(384)	(762)	(1,356)	(2,305)
Increase in leasehold inducements	-	294	27	2,959
Net increase in Trust Company deposits	158,165	69,484	258,100	122,528
	110,433	35,496	214,588	102,188
<b>Investing Activities</b>				
Deferred selling commissions paid	(17,266)	(17,218)	(32,167)	(33,314)
Acquisition of subsidiary, net of cash acquired	-	-	(1,476)	(8,983)
Purchase of property, equipment and other intangible assets	(1,940)	(2,946)	(3,920)	(5,605)
Purchase of investments	(385)	(13,158)	(2,932)	(14,838)
Sale of investments	-	2,176	-	2,074
Net increase in Trust Company mortgages and consumer loans	(180,732)	(72,942)	(344,154)	(142,529)
	(200,323)	(104,088)	(384,649)	(203,195)
<b>Decrease in cash and cash equivalents during the period</b>	(7,173)	(11)	(54,724)	(13,307)
<b>Balance of cash and cash equivalents, beginning of period</b>	71,254	75,609	118,805	88,905
<b>Balance of cash and cash equivalents, end of period</b>	\$ 64,081	\$ 75,598	\$ 64,081	\$ 75,598
<b>Represented by:</b>				
Cash and cash equivalents			\$ 10,169	\$ 4,276
Trust Company cash and cash equivalents			53,912	71,322
			\$ 64,081	\$ 75,598

(See accompanying notes to the consolidated financial statements)

# notes to consolidated financial statements

For the six months ended May 31, 2005 and May 31, 2004 (tabular amounts in thousands of dollars, except per share amounts) (unaudited)

These unaudited interim consolidated financial statements of AGF Management Limited (“AGF” or “Company”) 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, 2004. 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, 2004, as set out in AGF’s 2004 Annual Report. Certain comparative amounts have been reclassified to conform with the current period’s presentation.

## Note 1: Adoption of AcG 15 “Consolidation of Variable Interest Entities”

The CICA issued AcG 15, “Consolidation of Variable Interest Entities,” which provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. AcG 15 became effective for all annual and interim periods beginning on or after December 1, 2004. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest.

The Company has reviewed its relationships and determined that there are no entities whose financial results would be required to be included or disclosed in the consolidated results for the six months ended May 31, 2005.

## Note 2: Investment in Associated Company

On May 27, 2005, Smith & Williamson Holdings Limited (“S&WHL”) completed the acquisition of 100% of the outstanding shares of Solomon Hare Personal Finance Limited (“SHPF”) and the business of Solomon Hare LLP (“SHLLP”). The total consideration paid by S&WHL of £8.9 million included cash of £2.1 million and the issuance of 2.3 million shares valued at £6.8 million. Prior to this transaction, the Company had a 31.8% interest in S&WHL. As at May 31, 2005, the Company held a 30.4% interest in S&WHL. The dilution gain with respect to the completion of this transaction was not significant. S&WHL provides independent private client investment management, financial advisory, tax and accounting services in the U.K.

In addition, during the second quarter, S&WHL accrued £1.5 million related to premise relocation expenses. The impact on the Company was to reduce revenue by \$1.1 million in the quarter.



### Note 3: Long-Term Debt

	May 31, 2005	November 30, 2004
Bank loans		
Fully amortizing term loan	\$ 17,700	\$ 35,400
Revolving term loan	60,300	43,300
Notes payable due April 30, 2013	18,341	19,327
Payment re CISL due January 31, 2006	1,067	1,067
Cypress payments due June 30, 2005	6,500	6,500
Cypress payments due June 30, 2006	6,500	6,500
Capital lease obligations	1,795	2,165
	112,203	114,259
Less: amount included in current liabilities	26,873	44,553
	\$ 85,330	\$ 69,706

#### Bank Loans

##### Fully Amortizing Term Loan

As at May 31, 2005, the Company has drawn the facility in the form of a 91-day bankers' acceptance ("BA") at an effective interest rate of 3.03% per annum.

##### Revolving Term Loan

As at May 31, 2005, the Company has a total available loan amount of \$150.0 million, against which the Company has issued a \$30.7 million letter of credit and drawn \$60.3 million in the form of six to 92-day BAs at an effective average interest rate of 3.02% per annum. The facility expires June 30, 2006.

##### Cypress Payments

On June 30, 2004, the Company completed the acquisition of 100% of the shares of Cypress Capital Management Ltd. ("Cypress"). These future payments relate to the acquisition of Cypress. These payments are non-interest bearing and unsecured.

### Note 4: 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) Change During the Period**

The change in capital stock during the six months ended May 31, 2005 and year ended November 30, 2004 is summarized as follows:

	Number of shares	Amount
<b>Class B Shares</b>		
Balance, November 30, 2004	90,739,463	\$ 394,125
Issued through dividend reinvestment plan	7,098	119
Stock options exercised	132,583	1,368
Purchased for cancellation	(1,160,100)	(5,046)
Balance, May 31, 2005	89,719,044	\$ 390,566
<b>Class A Shares</b>		
Balance, May 31, 2005	57,600	-
Total capital stock, May 31, 2005		\$ 390,566

	Number of shares	Amount
<b>Class B Shares</b>		
Balance, November 30, 2003	92,214,723	\$ 395,168
Issued on acquisition of a subsidiary	285,553	5,200
Issued through dividend reinvestment plan	12,405	214
Stock options exercised	326,582	2,575
Purchased for cancellation	(2,099,800)	(9,032)
Balance, November 30, 2004	90,739,463	\$ 394,125
<b>Class A Shares</b>		
Balance, November 30, 2004 and 2003	57,600	-
Total capital stock, November 30, 2004		\$ 394,125

**(c) Class B Shares Purchased for Cancellation**

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B shares through the facilities of the Toronto Stock Exchange. Present approval for such purchases extends through to February 17, 2006. Under this issuer bid, the Company may purchase up to 10% of the public float outstanding on the date of the receipt of regulatory approval or up to 7,478,103 shares. During the six months ended May 31, 2005, 1.2 million Class B shares were purchased at a cost of \$19.4 million and the excess paid of \$14.3 million over the book value of the shares purchased for cancellation was charged to retained earnings.

**(d) Stock Option Plans****Stock-Based Compensation**

Under the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" for stock options granted on or after December 31, 2002, the fair value of stock options is determined on the grant date and recorded as compensation expense over the period that the stock options vest. During the six months ended May 31, 2005, the Company granted 978,000 options (2004 - 770,000) and recorded \$1.4 million (2004 - \$0.9 million) in compensation expense in respect of the options granted during that period. The fair value of options granted during the period has been estimated at between \$2.72 and \$5.41 per share using the Black-Scholes option-pricing model. The following range of assumptions were used to determine the fair value of the options on the date of grant:

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

The options vest over a three- to four-year period and have terms ranging from seven to 10 years. The Company or employee is required to meet performance criteria for certain of the options to vest.

The change in outstanding stock options during the six months ended May 31, 2005 is summarized as follows:

	Number of options	Weighted average exercise price
<b>Class B Share Options</b>		
Balance outstanding, November 30, 2004	3,566,604	\$ 17.86
Options granted	978,000	\$ 17.09
Options cancelled	(28,750)	\$ 20.10
Options exercised	(132,583)	\$ 10.32
Balance outstanding, May 31, 2005	4,383,271	\$ 17.90

Stock options to purchase an aggregate maximum of 6,468,504 Class B shares could have been granted as at May 31, 2005.

(e) Earnings Per Share

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

	Three months ended May 31,		Six months ended May 31,	
	2005	2004	2005	2004
<b>Numerator</b>				
Net income for the period	\$ 22,359	\$ 34,016	\$ 43,536	\$ 57,789
<b>Denominator</b>				
Weighted average number of shares – basic	90,553,323	91,301,644	90,688,014	91,508,759
Dilutive effect of employee stock options	332,750	580,235	338,117	577,358
Weighted average number of shares – diluted	90,886,073	91,881,879	91,026,131	92,086,117
<b>Earnings per share</b>				
Basic	\$ 0.25	\$ 0.37	\$ 0.48	\$ 0.63
Fully diluted	\$ 0.25	\$ 0.37	\$ 0.48	\$ 0.63

## Note 5: Acquisition of P.J. Doherty & Associates Co. Ltd.

On January 15, 2004, the Company completed the acquisition of 100% of the shares of P.J. Doherty & Associates Co. Ltd. ("P.J. Doherty") for consideration of \$12.2 million, including \$0.3 million of acquisition costs. The acquisition was accounted for by the purchase method of accounting, with the results of operations of P.J. Doherty included in the consolidated financial statements from the date of acquisition. Cash consideration paid amounted to \$9.4 million, with future payments of \$2.8 million due in the year following the acquisition.

There is also potential additional consideration that may become payable based on revenue growth during the two-year period subsequent to completion of the acquisition. The acquired business, which is based in Ottawa, is an investment counselling firm for high-net-worth individuals and institutions. The value attributed to customer contracts is being amortized on a straight-line basis over 15 years.

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

<b>Net Assets Acquired</b>	
Cash	\$ 468
Other assets	318
Customer contracts	13,015
Goodwill	3,360
Current liabilities	(233)
Future income tax	(4,701)
	\$ 12,227
<b>Consideration Paid (including acquisition costs)</b>	
Cash	\$ 9,451
Future payments due within one year	2,776
	\$ 12,227

During the six months ended May 31, 2005, the Company made \$1.5 million in payments with respect to this acquisition. Of this amount, \$1.3 million represented the final payment due within one year of the acquisition date. The Company also paid out \$0.2 million on the first anniversary of the acquisition based on revenue growth during the past year. The latter payment was recorded as an increase in goodwill.

## Note 6: Interest Rate Swap Transactions

To hedge its exposure to fluctuating interest rates, AGF Trust Company has entered into interest rate swap transactions with four Canadian chartered banks as noted below. The swap transactions expire between June 30, 2005 and May 31, 2010 and involve the exchange of either the one-month bankers' acceptance rate or the three-month bankers' acceptance rate to receive fixed interest rates. As at May 31, 2005, the aggregate notional amount of the swap transactions was \$759.7 million. The aggregate fair value of the swap transactions, which represents the amount that would be received by AGF Trust Company if the transactions were terminated at May 31, 2005, was \$11.5 million (2004 - \$1.9 million).

Notional amount of swap	Maturity date	Fixed interest rate received
\$ 45,500	2005	3.06% - 3.91%
107,000	2006	3.35% - 4.57%
218,700	2007	3.00% - 5.11%
197,000	2008	3.17% - 4.43%
122,000	2009	3.49% - 4.59%
70,000	2010	3.77% - 4.17%

## Note 7: Supplemental Disclosure of Cash Flow Information

Interest payments for the three months ended May 31, 2005 were \$8.6 million (2004 - \$5.0 million). Interest payments for the six months ended May 31, 2005 were \$15.6 million (2004 - \$12.1 million).

Income tax payments for the three months ended May 31, 2005 were \$6.5 million (2004 - \$9.7 million). Income tax payments for the six months ended May 31, 2005 were \$19.4 million (2004 - \$47.3 million).

## Note 8: Segment Information

AGF has three reportable segments: Investment Management Operations, Fund Administration Operations and Trust Company Operations. The Investment Management segment provides investment management and advisory services and is responsible for the management and distribution of the AGF investment products. Fund Administration offers fund administrative services and transfer agency solutions to institutional clients including the Company's group of mutual funds. AGF Trust Company offers a wide range of trust services, including GICs, mortgages, investment loans and RRSP loans. AGF's reportable segments are strategic business units that offer different products and services.

The results of the reportable segments are based upon the internal financial reporting systems of AGF. The accounting policies used in these segments are generally consistent with those described in the summary of significant accounting policies detailed in AGF's 2004 annual financial statements.

Three months ended May 31, 2005	Investment Management Operations	Fund Administration Operations	Trust Company Operations	Other	Inter- Segment Elimination	Total
External revenue	\$ 126,500	\$ 15,733	\$ 15,674	\$ 236	\$ -	\$ 158,143
Intersegment revenue	753	12,962	297	-	(14,012)	-
Segment revenue	127,253	28,695	15,971	236	(14,012)	158,143
Operating expenses	66,348	22,752	12,564	1,418	(14,012)	89,070
Amortization	33,825	3,933	239	-	-	37,997
Segment income (loss) before taxes	\$ 27,080	\$ 2,010	\$ 3,168	\$ (1,182)	\$ -	\$ 31,076
<b>Included in External Revenue</b>						
Interest revenue	\$ 211	\$ 6	\$ 11,107	\$ -	\$ -	\$ 11,324
Total assets	\$ 1,032,329	\$ 161,708	\$ 1,126,452	\$ 109,161	\$ -	\$ 2,429,650

Three months ended May 31, 2004	Investment Management Operations	Fund Administration Operations	Trust Company Operations	Other	Inter- Segment Elimination	Total
External revenue	\$ 132,352	\$ 21,944	\$ 10,783	\$ 1,372	\$ -	\$ 166,451
Intersegment revenue	1,098	12,565	297	-	(13,960)	-
Segment revenue	133,450	34,509	11,080	1,372	(13,960)	166,451
Operating expenses	63,711	29,969	7,751	1,294	(13,960)	88,765
Amortization	36,587	3,874	292	-	-	40,753
Segment income before taxes	\$ 33,152	\$ 666	\$ 3,037	\$ 78	\$ -	\$ 36,933
<b>Included in External Revenue</b>						
Interest revenue	\$ 211	\$ (4)	\$ 9,626	\$ -	\$ -	\$ 9,833
Total assets	\$ 1,085,835	\$ 174,120	\$ 718,817	\$ 122,650	\$ -	\$ 2,101,422

Six months ended May 31, 2005	Investment Management Operations	Fund Administration Operations	Trust Company Operations	Other	Inter- Segment Elimination	Total
External revenue	\$ 253,684	\$ 33,216	\$ 28,091	\$ 520	\$ -	\$ 315,511
Intersegment revenue	1,544	25,623	556	-	(27,723)	-
Segment revenue	255,228	58,839	28,647	520	(27,723)	315,511
Operating expenses	129,779	49,674	23,481	2,838	(27,723)	178,049
Amortization	67,698	7,846	487	-	-	76,031
Segment income (loss) before taxes	\$ 57,751	\$ 1,319	\$ 4,679	\$ (2,318)	\$ -	\$ 61,431
<b>Included in External Revenue</b>						
Interest revenue	\$ 711	\$ 12	\$ 23,151	\$ -	\$ -	\$ 23,874
Total assets	\$ 1,032,329	\$ 161,708	\$ 1,126,452	\$ 109,161	\$ -	\$ 2,429,650

Six months ended May 31, 2004	Investment Management Operations	Fund Administration Operations	Trust Company Operations	Other	Inter- Segment Elimination	Total
External revenue	\$ 262,200	\$ 41,303	\$ 20,103	\$ 1,951	\$ -	\$ 325,557
Intersegment revenue	2,212	24,994	578	-	(27,784)	-
Segment revenue	264,412	66,297	20,681	1,951	(27,784)	325,557
Operating expenses	125,322	57,631	15,923	3,669	(27,784)	174,761
Amortization	72,203	7,613	570	-	-	80,386
Segment income (loss) before taxes	\$ 66,887	\$ 1,053	\$ 4,188	\$ (1,718)	\$ -	\$ 70,410
<b>Included in External Revenue</b>						
Interest revenue	\$ 393	\$ -	\$ 18,580	\$ -	\$ -	\$ 18,973
Total assets	\$ 1,085,835	\$ 174,120	\$ 718,817	\$ 122,650	\$ -	\$ 2,101,422



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**AGF  
MUTUAL  
FUNDS**

**AGF TAILORED  
INVESTMENT  
PROGRAMS**  
Harmony

**AGF PRIVATE  
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MANAGEMENT**

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TRUST**