

AGF Management Limited  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

For the three and six months ended May 31, 2010



What are you doing after work?



What are you doing after work?

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AGF MANAGEMENT LIMITED

**Second Quarter Report to Shareholders** for the three and six months ended May 31, 2010

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AGF MANAGEMENT LIMITED REPORTS SECOND QUARTER FINANCIAL RESULTS

**AGF net income increases 59.9% to \$27.5 million**

*Assets under management increase 14.6%*

Toronto | June 23, 2010

AGF Management Limited (AGF) today announced financial results for the second quarter ended May 31, 2010 with net income of \$27.5 million, up 59.9% or \$10.3 million from net income of \$17.2 million reported in the second quarter of 2009. The increase was the result of higher Investment Management Operations revenue primarily related to improvements in global markets and a decline in Trust Company Operations provision for loan losses expense. Excluding one-time accounting charges related to Smith and Williamson Holdings Limited (S&WHL), in which we hold a 30.5% equity investment, net income for the three months ended May 31, 2010 was \$31.5 million.

Earnings per share in the second quarter of 2010, on a fully diluted basis, were \$0.30 compared with \$0.19 in the second quarter of 2009. Excluding the one-time accounting charges related to S&WHL, earnings per share were \$0.35 in the second quarter of 2010, on a fully diluted basis.

Total assets under management (AUM) increased 14.6% to \$42.9 billion at May 31, 2010 from \$37.4 billion at May 31, 2009 as a result of market appreciation as well as the addition of new institutional mandates over the past twelve months. Mutual fund assets increased 2.2% to \$21.4 billion at the end of May 2010 compared to \$20.9 billion the prior year. Institutional and high-net-worth client assets increased 30.3% year-over-year to \$21.5 billion from \$16.5 billion.

“Our AUM and profitability increased year-over-year with strong interest from institutional clients and improvements in market and economic conditions,” said Chairman and CEO Blake C. Goldring. “We are moving forward strategically with our growth plans and in the second quarter, launched two new retail funds, a new institutional mandate and a new residential mortgage lending product. These enhancements across all our business lines position AGF well to capitalize on diverse asset-gathering opportunities.”

During this quarter, total consolidated revenue increased to \$153.8 million compared with \$143.5 million in the second quarter of last year. EBITDA totalled \$62.6 million for the three months ended May 31, 2010, an increase of 27.8% compared with \$49.0 million for the three months ended May 31, 2009. Excluding the one-time accounting charges related to S&WHL, EBITDA for the three months ended May 31, 2010 was \$68.1 million. For the second quarter of 2010, EBITDA margins improved to 40.7% from 34.1% in the same period a year earlier.

AGF Trust continued to be a meaningful contributor to AGF’s overall profitability. While loan assets declined 17.6% year-over-year to \$3.4 billion at May 31, 2010, profitability improved with a 67.1% decline in the provision for loan losses contributing to a 112.2% increase in EBITDA to \$10.4 million. AGF Trust is repositioning for future growth with product enhancements and new product development. In the second quarter of 2010, AGF Trust launched a prime residential mortgage product in the advisor channel in Ontario with plans to roll out the product in the rest of Canada over the remainder of the year.

#### **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, or future or conditional verbs such as 'may', 'will', 'should', 'would' and 'could'. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action on our part, is also a forward-looking statement. Forward-looking statements are based on certain factors and assumptions, including expected growth, results of operations, business prospects, business performance and opportunities. While we consider these factors and assumptions to be reasonable based on information currently available, they may prove to be incorrect. 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 risk factors such as level of assets under our management, volume of sales and redemptions of our investment products, performance of our investment funds and of our investment managers and advisors, competitive fee levels for investment management products and administration, and competitive dealer compensation levels, size and default experience on our loan portfolio and cost efficiency in our loan operations, as well as interest and foreign exchange rates, taxation, changes in government regulations, unexpected judicial or regulatory proceedings, and our ability to complete strategic transactions and integrate acquisitions. We caution that the foregoing list is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than specifically required by applicable laws, 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. For a more complete discussion of the risk factors that may impact actual results, please refer to the 'Risk Factors and Management of Risk' section of AGF's 2009 Annual Report MD&A.

## Dear fellow shareholders

After signs of improvement for the investment management business during the first quarter of 2010, the second quarter brought a return to global market volatility as a result of the sovereign debt crisis in Europe and concerns about the strength of the global economic recovery. At AGF, we continue to forge ahead with our growth plans and strategic initiatives with conviction, believing that our long-term focus will overcome short-term volatility. Our goal, as always, is to help investors succeed in all market environments and life stages and to provide investment solutions that deliver strong long-term investment performance.

At the end of the second quarter of 2010, AGF's total assets under management (AUM) grew to \$42.9 billion, up 14.6% from May 31, 2009. Mutual fund AUM grew by 2.2% to \$21.4 billion due to market appreciation over the twelve month period. Institutional, strategic account and high-net-worth AUM increased 30.3% or \$5.0 billion to \$21.5 billion as a result of new institutional mandates as well as market appreciation. Mutual fund net redemptions were \$477.0 million in the second quarter compared with \$125.0 million a year earlier. We continue to work diligently to increase mutual fund sales and are confident that our current product and sales initiatives combined with our commitment to strong long-term investment performance will reverse the redemption trend.

On the retail side of the business we made a number of enhancements to our funds during the second quarter and introduced two new funds to our line-up: the AGF Pure Canadian Balanced Fund and the AGF Traditional Income Fund. We also announced the launch of the AGF Global Aggregate Bond Fund expected in the third quarter of this year. Managed by seasoned industry veterans, these funds diversify and enhance our offerings in the industry's top-selling categories and better position us to meet investor demands for income and safety. On the institutional side of the business, in response to investor interest, we launched a Global Resources mandate which leverages our retail investment management expertise and we are developing two additional mandates for launch later in 2010.

Consolidated revenue increased to \$153.8 million, compared with \$143.5 million in the second quarter of the prior year due to higher Investment Management revenues which were up 17.0% year-over-year driven by higher levels of average AUM. Earnings before interest, taxes, depreciation and amortization<sup>1</sup> (EBITDA) increased to \$62.6 million from \$49.0 million in the second quarter of 2009. Excluding one-time accounting charges related to Smith and Williamson Holdings Limited, in which we hold a 30.5% equity interest, EBITDA for the three months ended May 31, 2010 was \$68.1 million.

AGF Trust continued to be a meaningful contributor to AGF's overall profitability. While loan assets declined 17.6% year-over-year to \$3.4 billion at May 31, 2010, profitability improved with a 67.1% decline in the provision for loan losses contributing to a 112.2% increase in EBITDA to \$10.4 million. AGF Trust is repositioning for future growth with product enhancements and new product development. In the second quarter of 2010, AGF Trust launched a prime residential mortgage product in the advisor channel in Ontario with plans to roll out the product in the rest of Canada over the remainder of the year.

For the three months ended May 31, 2010, AGF reported cash flow from operations<sup>1</sup> (before net change in non-cash balances related to operations) of \$61.9 million, compared with \$44.7 million a year ago. Free cash flow<sup>1</sup> (cash flow from operations less selling commissions paid) for the same period was \$46.7 million, compared with \$29.3 million one year ago.

We will continue to build on our strategic priorities to create long-term value for shareholders, clients and unitholders.



**Blake C. Goldring, M.S.M., CFA**  
**Chairman and Chief Executive Officer**  
**June 23, 2010**

<sup>1</sup> Cash flow from operations, free cash flow and EBITDA are non-GAAP measures. Please refer to pages 5 and 6 of this report for definitions of these metrics.

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

For the three and six months ended May 31, 2010

This Management's Discussion and Analysis (MD&A) presents an analysis of the financial condition of AGF Management Limited and its subsidiaries (AGF) as at May 31, 2010, compared with November 30, 2009. The MD&A also includes the results of operations for the three and six months ended May 31, 2010, compared with the corresponding periods of 2009. This discussion should be read in conjunction with our 2009 annual MD&A and 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 2009 annual MD&A: "Risk Factors and Management of Risk", "Controls and Procedures", "Contractual Obligations", "Intercompany and Related Party Transactions" and "Government Regulations". The "Key Performance Indicators and Non-GAAP Measures" section contains a reconciliation of non-GAAP measures to GAAP measures.

## Overview

With \$42.9 billion in assets under management (AUM) as at May 31, 2010, AGF is a premier Canadian-based investment solutions firm, with operations and investments in Canada, the United States, the United Kingdom, Ireland and Asia. To serve the needs of a broad range of diversified clients worldwide, the firm consists of two distinct businesses: AGF Investments and AGF Trust.

The origin of our Company dates back to 1957 with the introduction of the American Growth Fund, the first mutual fund available to Canadians seeking to invest in the United States. As of May 31, 2010, our products and services include a diversified family of award-winning mutual funds, AGF Elements portfolios, the Harmony asset management program, services for institutional and high-net-worth clients, as well as AGF Trust GICs, loans and mortgages.

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

The Investment Management Operations segment includes the results of our retail, institutional and high-net-worth client businesses. The Trust Company Operations segment includes the results of AGF Trust Company, and the Other segment includes our equity interest in Smith and Williamson Holdings Limited (S&WHL).

## Strategy and Quarterly Overview

AGF Management Limited fosters the development of best-in-class operating segments to provide world-class financial solutions to clients in Canada and internationally. We continue to identify opportunities within our business segments, ensuring that the appropriate resources are allocated to each of these segments in a cost effective manner so that shareholder value is maximized over the long term.

Our Investment Management Operations are focused on providing a diverse suite of investment solutions to retail, institutional and high-net-worth clients. We are focused on delivering strong long-term investment performance and excellence in client service while continuing to build and maintain strong relationships with distribution partners. Our Trust Company Operations complement our Investment Management Operations and are focused on contributing to the profitability of AGF Management Limited. AGF Trust is focused on supporting the AGF brand through the delivery of value-added products and services, contributing to the growth of AGF Investments' products and effectively leveraging the advisor distribution channel.

During the second quarter of 2010:

- Revenue increased 7.2% to \$153.8 million compared with the same period in 2009, driven by an 17.0% increase in Investment Management Operations revenue which was directly related to higher year-over-year AUM levels.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 27.8% to \$62.6 million from \$49.0 million in the second quarter of 2009.
- EBITDA margin improved to 40.7% compared to 34.1% in the second quarter of 2009.
- Net income increased to \$27.5 million from \$17.2 million in the same period in 2009 primarily due to an increase in Investment Management Operations revenue and a decrease in the provision for loan losses at AGF Trust.

- Total AUM increased 14.6% to \$42.9 billion at May 31, 2010 from \$37.4 billion at May 31, 2009.
- Mutual fund net redemptions were \$477.0 million in the second quarter of 2010 compared with net redemptions of \$125.0 million in the second quarter of the previous year.
- AGF Trust real estate secured loan assets declined 31.0% over the previous year and investment loans declined 6.9% with total loan assets declining 17.6% year-over-year. This decline in loan assets is reflective of the strategy that we adopted during the economic downturn to slow loan growth and improve our regulatory capital position.
- AGF Trust remained a strong contributor in the second quarter of 2010, representing 25.3% of AGF Management Limited's pre-tax income.
- We delivered value directly to our shareholders through dividend payments. Dividends paid, including dividends reinvested, on Class A Voting common shares and Class B Non-Voting shares were \$23.2 million in the second quarter of 2010 compared to \$22.2 million in the same period in 2009.

## Key Performance Indicators and Non-GAAP Measures

We measure the success of our business strategies using a number of key performance indicators (KPIs), which are outlined below. With the exception of revenue, the following KPIs are non-GAAP measures which are not defined under Canadian GAAP. They 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 KPIs that are relevant to each segment.

### a) Consolidated Operations

#### Revenue

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

We derive our revenue principally from a combination of:

- management and advisory fees based on AUM
- deferred sales charges (DSC) earned from investors when mutual fund securities sold on a DSC basis are redeemed
- net interest income earned on AGF Trust's loan portfolio

#### EBITDA

We define EBITDA as earnings before interest, taxes, depreciation, amortization and non-controlling interest. EBITDA is a standard measure used in the mutual fund industry by management, investors and investment analysts to understand and compare results. We believe this is an important measure as it allows us to assess our investment management businesses without the impact of non-operational items. EBITDA for the Trust Company Operations segment includes interest expense related to deposits. These deposits fund our investment loan and real estate secured loan programs, and are therefore considered an operating cost directly related to generating interest revenue. We include this interest expense in Trust Company Operations EBITDA to provide a meaningful comparison to our other business segments and our competitors.

Please see the Consolidated Operating Results section on page 12 of this MD&A for a schedule showing how EBITDA reconciles to our GAAP financial statements.

#### Cash Flow from Operations

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Net cash provided by operating activities	\$ 56.9	\$ 52.0	\$ 65.8	\$ 58.0
Less: net changes in non-cash balances related to operations	(5.0)	7.3	(55.5)	(33.4)
Cash flow from operations	\$ 61.9	\$ 44.7	\$ 121.3	\$ 91.4

### Free Cash Flow from Operations

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Cash flow from operations (defined above)	\$ 61.9	\$ 44.7	\$ 121.3	\$ 91.4
Less: selling commissions paid	15.2	15.4	29.1	27.9
Free cash flow	\$ 46.7	\$ 29.3	\$ 92.2	\$ 63.5

### EBITDA Margin

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
EBITDA	\$ 62.6	\$ 49.0	\$ 129.7	\$ 91.8
Divided by revenue	153.8	143.5	310.0	281.5
EBITDA margin	40.7%	34.1%	41.8%	32.6%

### Pre-Tax Profit Margin

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Net income	\$ 27.5	\$ 17.2	\$ 58.1	\$ 29.4
Add: income taxes	10.8	5.8	22.8	9.9
Income before taxes	\$ 38.3	\$ 23.0	\$ 80.9	\$ 39.3
Divided by revenue	153.8	143.5	310.0	281.5
Pre-tax profit margin	24.9%	16.0%	26.1%	14.0%

### Return on Equity (ROE)

We monitor ROE to assess the profitability of the consolidated Company on an annual basis. We calculate ROE by dividing net income in the quarter annualized by average shareholders' equity.

For the three months ended (\$ millions)	May 31, 2010	May 31, 2009
Net income (annualized)	\$ 110.0	\$ 68.8
Divided by average shareholders' equity	1,137.8	1,094.3
Return on equity	9.7%	6.3%

### Long-term Debt to EBITDA Ratio

Long-term debt to EBITDA ratio provides useful information to management and investors as an indicator of our ability to service our long-term debt. We define long-term debt to EBITDA ratio as long-term debt at the end of the quarter divided by EBITDA for the quarter annualized.

For the three months ended (\$ millions)	M ay 31, 2010	M ay 31, 2009
Long-term debt	\$ 121.6	\$ 194.7
Divided by EBITDA (annualized)	250.4	196.0
Long-term debt to EBITDA	48.6%	99.3%

## b) Investment Management Operations

### Assets Under Management (AUM)

The amount of AUM is critical to our business since these assets generate fees from our mutual fund, institutional, strategic accounts and high-net-worth relationships. AUM will fluctuate in value as a result of investment performance, sales and redemptions. Mutual fund AUM determines a significant portion of our expenses because we pay upfront commissions and trailing commissions to financial advisors as well as investment advisory fees based on the value of AUM.

### Investment Performance

Investment performance, which represents market appreciation (depreciation) of fund portfolios and is shown net of management fees received, is a key driver of the level of AUM and is central to the value proposition that we offer advisors and unitholders. Growth in AUM resulting from investment performance increases the wealth of our unitholders, and, in turn, we benefit from higher revenues. Alternatively, poor investment performance will reduce our AUM levels and result in lower management fee revenues. Strong relative investment performance may also contribute to growth in gross sales or reduced levels of redemptions. Conversely, poor relative investment performance may result in lower gross sales and higher levels of redemptions. Refer to the 'Risk Factors and Management of Risk' section of our 2009 Annual MD&A for further information.

### Net Sales

One of the goals of our mutual fund business is to generate positive net sales on an annual basis, which allows for increasing revenues. Gross sales and redemptions as a percentage of AUM are monitored separately and the sum of these two amounts comprises net sales. Net sales, together with investment performance and fund expenses, determine the level of average daily mutual fund AUM, which is the basis on which management fees are charged. The average daily mutual fund AUM is equal to the aggregate average daily net asset value of the AGF mutual funds.

We monitor inflows and outflows in our high-net-worth and institutional businesses separately. We do not compute an average daily AUM figure for them.

### EBITDA Margin – Investment Management

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

(\$ millions)	Three months ended M ay 31,		Six months ended M ay 31,	
	2010	2009	2010	2009
EBITDA	\$ 55.4	\$ 41.8	\$ 109.8	\$ 76.6
Divided by revenue	132.2	113.0	262.9	222.9
EBITDA margin	41.9%	37.0%	41.8%	34.4%



### Pre-Tax Profit Margin – Investment Management

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Income before taxes and non-segmented items	\$ 34.0	\$ 18.3	\$ 66.6	\$ 28.9
Divided by revenue	132.2	113.0	262.9	222.9
Pre-tax profit margin	25.7%	16.2%	25.3%	13.0%

### c) Trust Company Operations

#### Loan Asset Growth

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

#### Net Interest Income

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Interest income	\$ 45.6	\$ 58.6	\$ 91.5	\$ 125.3
Less: interest expense	23.2	32.9	47.5	73.1
Net interest income	\$ 22.4	\$ 25.7	\$ 44.0	\$ 52.2

#### Net Interest Margin

Net interest margin is equal to annualized net interest income for the year divided by the average quarterly total loan balance.

(\$ millions)	Three months ended May 31,	
	2010	2009
Annualized net interest income	\$ 89.6	\$ 102.8
Divided by average quarterly total loan balance	3,405.3	4,171.1
Net interest margin	2.6%	2.5%

### Efficiency Ratio

The efficiency ratio is a financial services industry KPI that measures the efficiency of the organization. We use this ratio to ensure non-interest expenses are contained as the Trust Company grows. The ratio is calculated from AGF Trust results by dividing non-interest expenses by the total of net interest income and non-interest income.

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Selling, general and administrative expenses	\$ 9.5	\$ 8.4	\$ 18.4	\$ 17.0
Add: amortization expense	0.7	0.7	1.3	1.4
Non-interest expense	10.2	9.1	19.7	18.4
Other revenue	\$ 2.0	\$ 2.0	\$ 3.8	\$ 4.1
RSP loan securitization income (loss), net of impairment	0.4	0.5	0.9	(1.0)
Non-interest income	2.4	2.5	4.7	3.1
Net interest income	\$ 22.4	\$ 25.7	\$ 44.0	\$ 52.2
Add: non-interest income	2.4	2.5	4.7	3.1
Total of net interest income and non-interest income	24.8	28.2	48.7	55.3
Efficiency ratio	41.1%	32.3%	40.5%	33.3%

### EBITDA Margin – Trust

EBITDA margin provides useful information to management and investors as an indicator of AGF Trust's operating performance. We believe EBITDA margin is a valuable measure because it assesses the extent we are able to earn profit from each dollar of revenue. We define EBITDA margin as the ratio of EBITDA to revenue.

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
EBITDA	\$ 10.4	\$ 4.9	\$ 21.5	\$ 11.9
Divided by revenue	24.8	28.2	48.7	55.3
EBITDA margin	41.9%	17.4%	44.1%	21.5%

### Pre-Tax Profit Margin – Trust

Pre-tax profit margin provides useful information to management and investors as an indicator of AGF Trust's operating performance. We believe pre-tax profit margin is a valuable measure because it assesses the extent we are able to earn profit from each dollar of revenue. We define pre-tax profit margin as the ratio of income before taxes and non-segmented items to total revenue.

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Income before taxes and non-segmented items	\$ 9.7	\$ 4.2	\$ 20.2	\$ 10.5
Divided by revenue	24.8	28.2	48.7	55.3
Pre-tax profit margin	39.1%	14.9%	41.5%	19.0%

### Assets-to-Capital Multiple

Federally regulated deposit-taking institutions (DTI) are expected to meet an assets-to-capital multiple test. The assets-to-capital multiple is determined by dividing the DTI's total assets by its total regulatory capital, and expresses the extent by which capital is leveraged into the assets of the DTI.

(\$ millions)	May 31, 2010	November 30, 2009
Total assets per OSFI guidelines <sup>1</sup>	\$ 4,238.4	\$ 4,497.4
Divided by adjusted Tier 1 and Tier 2 capital	390.8	375.5
Assets-to-capital multiple	10.8	12.0

<sup>1</sup> OSFI is the Office of the Superintendent of Financial Institutions.

### Loan-to-Value Ratio

Loan-to-value ratio on our conventional mortgage loans is calculated using the outstanding balance of conventional mortgage loans divided by the estimated fair value of the real estate serving as collateral for the conventional mortgage loans as at the date the loans were funded.

(\$ millions)	May 31, 2010	November 30, 2009
Conventional mortgage loans <sup>1</sup>	\$ 472.8	\$ 556.5
Divided by fair value of collateral	730.7	851.7
Loan-to-value ratio	64.7%	65.3%

<sup>1</sup> Includes loan provision and deferred sales commission of \$9.4 million at May 31, 2010 and \$9.5 million at November 30, 2009.

### Impaired Loans as a Percentage of Loans Outstanding

Impaired loans as a percentage of loans outstanding is calculated by dividing total impaired loans by total loans outstanding.

(\$ millions)	May 31, 2010	November 30, 2009
Impaired loans	\$ 45.3	\$ 48.9
Divided by total loans outstanding <sup>1</sup>	3,350.0	3,594.8
Impaired loans as a percentage of loans outstanding	1.4%	1.4%

<sup>1</sup> Includes loan provision and deferred sales commission of \$31.4 million at May 31, 2010 and \$34.7 million at November 30, 2009.

## Significant Accounting Policies

A summary of AGF's significant accounting policies can be found in Note 1 of our 2009 Annual Consolidated Financial Statements.

### Future Accounting Changes

#### Transition to International Financial Reporting Standards

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), for fiscal years beginning on or after January 1, 2011. Effective December 1, 2011, we will adopt IFRS as the basis for preparing our consolidated financial statements. We will report our financial results for the quarter ended February 29, 2012 prepared on an IFRS basis. We will also provide comparative data on an IFRS basis, including an opening balance sheet as at December 1, 2010.

In order to meet the requirement to transition to IFRS, in 2008 we established an enterprise-wide project. We are following a transition plan comprising three phases: (1) IFRS diagnostic assessment, (2) impact analysis, evaluation and design, and (3) implementation and review. The project remains on track: we have completed the diagnostic assessment, and the impact analysis, evaluation and design phase of our transition is well advanced.

The IFRS diagnostic assessment is complete. Through this assessment, the areas identified to be the most impactful to AGF are those that deal with provision for credit losses on loans, hedge accounting, asset securitization, and deferred sales commission.

The second phase, impact analysis, evaluation and design include identifying and implementing the necessary changes within our existing financial reporting or data collection processes to address the IFRS differences identified in our diagnostic assessment; developing and executing internal training and awareness programs; and selecting accounting policy options permitted under IFRS. The impact to our data collection processes and existing financial reporting and data collection processes is minimal. No significant changes to IT systems were identified. As a result, the amendments to our financial systems were assessed and have been completed. Our internal training is ongoing, with the identification and continuing training of key finance and operational staff responsible for IFRS.

On a quarterly basis, we update the Audit Committee. These updates include a review of timelines, disclosure requirements, expected impact of the new standards on the financial statements and note disclosures as well as an update on the progress of the IFRS project. Based on our diagnostic, we are currently reviewing and determining accounting policy options permitted under IFRS that are expected to impact AGF. This is expected to be completed by the third quarter of 2010. In addition, we have assessed the exemptions to full restatement that are permitted under IFRS. Generally, with the adoption of IFRS, any change to our existing accounting policies must be applied retroactively and reflected in our opening balance sheet of the comparative period. There are, however, a number of exemptions from full restatement available under IFRS. The most impactful election under IFRS 1 to AGF is related to business combinations. Under IFRS 1, a company can elect to (a) restate retrospectively all business combinations after a particular date in accordance with IFRS 3 or; (2) apply IFRS 3 prospectively, the value at transition is considered deemed cost under IFRS. Under both options, goodwill must be tested for impairment at transition and on a periodic basis thereafter. We intend to apply IFRS 3 prospectively.

As each accounting policy option is selected, we will complete a review of its impact to our internal controls over financial reporting as well as disclosure controls and procedures and make changes where necessary.

In response to financial reporting issues emerging from the global financial crisis, the IASB plans to make revisions to or replace existing IFRS standards that address many of these areas. Recently, the IASB amended its work plan, which indicates that there would be no further changes to existing standards that would require adoption at the transition date. Changes expected after transition that may have a significant impact on AGF are:

#### **Replacement of IAS 39 – Financial Instruments**

The IASB's project plan reflects the replacement of its existing financial instruments standard in several phases. The first phase was recently completed with the publication of IFRS 9 – Financial Instruments, which addresses the classification and measurement of financial instruments, including securities. This new standard will not be mandatory until fiscal 2014, which is post-IFRS implementation for AGF.

The second phase of the financial instruments replacement is to replace the recognition and measurement requirement for impairment of financial instruments recorded at amortized cost, which includes loans. Based on draft papers issued by the IASB, significant changes to the existing standard are anticipated; however, the IASB indicated that the new standard is unlikely to require adoption until at least fiscal 2014.

The IASB's third phase will deal with hedge accounting. The IASB is scheduled to issue draft papers on this topic sometime in the first half of the 2010 calendar year. It is unclear when adoption will be required.

#### **Derecognition – Replacement of Existing Requirements within IAS 39**

The IASB is addressing the derecognition requirements for when a financial asset or financial liability would be removed from an entity's statement of financial position, which could impact whether securitized assets remain off the balance sheet. The IASB has provided a tentative publication date for the latter half of the 2010 calendar year. It is unclear when adoption will be required.

## **Managing Risk**

AGF is subject to a number of company and non-company specific risk factors that may impact our operating and financial performance. These risks and the management of those risks are detailed in our 2009 annual MD&A in the section entitled "Risk Factors and Management of Risk". The Company has not identified any material changes to the risk factors affecting its business or in the management of those risks. Refer to Note 15 of the Consolidated Financial Statements and Notes for risks arising from the use of financial instruments.

## Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have designed or caused the design of the Internal Controls over Financial Reporting (ICFR) and Disclosure Controls and Procedures. There have been no material weaknesses identified relating to the design of the ICFR. There have been no changes to AGF's internal controls for the quarter ended May 31, 2010 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## Consolidated Operating Results

The table below summarizes our consolidated operating results for the three and six months ended May 31, 2010 and 2009:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2010	2009	% change	2010	2009	% change
Revenue						
Investment Management Operations	\$ 132.2	\$ 113.0	17.0%	\$ 262.9	\$ 222.9	17.9%
Trust Company Operations	24.8	28.2	(12.1%)	48.7	55.3	(11.9%)
Other	(3.2)	2.3	n/m	(1.6)	3.3	n/m
	153.8	143.5	7.2%	310.0	281.5	10.1%
Expenses						
Investment Management Operations	76.8	71.2	7.9%	153.1	146.3	4.6%
Trust Company Operations	14.4	23.3	(38.2%)	27.2	43.4	(37.3%)
	91.2	94.5	(3.5%)	180.3	189.7	(5.0%)
EBITDA <sup>1</sup>	62.6	49.0	27.8%	129.7	91.8	41.3%
Amortization	22.0	24.3	(9.5%)	44.5	49.2	(9.6%)
Interest expense	2.0	1.6	25.0%	3.8	3.1	22.6%
Non-controlling interest	0.3	0.1	200.0%	0.5	0.2	150.0%
Income taxes	10.8	5.8	86.2%	22.8	9.9	130.3%
Net income	\$ 27.5	\$ 17.2	59.9%	\$ 58.1	\$ 29.4	97.6%
Earnings per share – diluted	\$ 0.30	\$ 0.19	57.9%	\$ 0.64	\$ 0.33	93.9%

<sup>1</sup> For the definition of EBITDA, see the 'Key Performance Indicators and Non-GAAP Measures' section. The items required to reconcile EBITDA to net income, a defined term under Canadian GAAP, are detailed above.

Revenue for the three and six months ended May 31, 2010, increased by 7.2% and 10.1% from the corresponding periods in 2009. Revenue in the Investment Management Operations segment increased 17.0% and 17.9% for the three and six months ended May 31, 2010. This corresponds to higher average levels of AUM. The Trust Company Operations segment reported a decrease in revenue of 12.1% and 11.9% in the three and six months ended May 31, 2010 compared to the same periods in 2009 as average loan balances declined by 18.4% and 18.7% in the respective periods. Results for Other, which represents the results of our 30.5% equity interest in S&WHL, were a loss of \$3.2 million and a loss of \$1.6 million for the three and six months ended May 31, 2010 compared to income of \$2.3 million and \$3.3 million for the same periods in 2009. The results of S&WHL in the second quarter of 2010 included AGF's proportion of one-time charges of approximately \$5.5 million primarily related to a goodwill impairment charge and costs related to investment team recruitment arrangements.

Expenses for the three and six months ended May 31, 2010 decreased 3.5% and 5.0% compared with same periods in 2009. Investment Management operations' expenses were higher primarily due to higher trailing commissions in the three and six months ended May 31, 2010 compared with the same periods in 2009. Trust Company Operations' expenses were lower due to a decline in the provision for loan losses in the three and six month periods ended May 31, 2010 compared with the same periods in 2009. For further details refer to each of the segment discussions.

The impact of the above items resulted in an increase in total EBITDA of 27.8% and 41.3% for the three and six month periods ending May 31, 2010 over the respective 2009 periods. Amortization expense for the three and six months ended May 31, 2010 decreased by 9.5% and 9.6% compared with the corresponding periods in 2009. The decline was primarily due to lower amortization of deferred selling commissions in the Investment Management Operations segment. Amortization of deferred selling commissions for three and six months ended May 31, 2010 accounted for \$19.7 million and \$39.9 million (2009 – \$21.1 million and \$43.4 million) of the total amortization expense.

Interest expense was \$2.0 million and \$3.8 for the three and six months ended May 31, 2010 as compared with \$1.6 million and \$3.1 million in the same periods of 2009.

Income tax expense for the three and six months ended May 31, 2010 was \$10.8 million and \$22.8 million as compared to \$5.8 million and \$9.9 million in 2009. The effective tax rate for the first six months of 2010 was 28.0% compared with 25.0% in the same period of 2009.

The impact of the above revenue and expense items resulted in net income of \$27.5 million and \$58.1 million for the three and six months ended May 31, 2010 as compared with \$17.2 million and \$29.4 million in the prior year. Basic earnings per share were \$0.31 and \$0.65 for the three and six months ended May 31, 2010 as compared with \$0.19 and \$0.33 in the same periods of 2009. Diluted earnings per share were \$0.30 and \$0.64 for the three and six months ended May 31, 2010 as compared with \$0.19 and \$0.33 in the same periods of 2009.

A further discussion follows of the results of each business segment for the three and six months ended May 31, 2010, compared with May 31, 2009.

## Business Segment Performance

We report on three business segments: Investment Management Operations, Trust Company Operations and Other. AGF's reportable segments are strategic business units that offer different products and services. The Investment Management Operations segment provides investment management and advisory services. It is responsible for the management and distribution of AGF investment products and services, including retail mutual fund operations, institutional investment management and high-net-worth client investment counselling services. The Trust Company Operations segment offers a range of products, including GICs, real estate secured loans and investment loans. The 'Other' segment includes the results of S&WHL, which is accounted for by the equity method, as well as interest expense.

## Investment Management Operations

### Business and Industry Profile

We are an independent and diversified investment management operation consisting of three lines of business - retail, institutional and high-net-worth - which serve Canadian and international investors.

Our retail business delivers a diversified suite of products including AGF mutual funds, the AGF Elements portfolios and the Harmony asset management program. The mutual fund industry is a \$685 billion industry in Canada and we compete with numerous domestic and foreign players serving the market. Our products are delivered through multiple channels, including advisors, financial planners, banks, life insurance companies and brokers. We have seven regional sales offices located across Canada serving our advisor and strategic account clients.

Our institutional business offers a variety of investment mandates to institutional clients through pooled funds, segregated accounts and sub-advisory relationships. We compete domestically and globally as an institutional investment manager and have sales and client service offices in Canada, the United States, Europe and Asia serving pension funds, foundations and corporations.

Our high-net-worth business delivers investment management and counselling services to high-net-worth clients in local markets in Canada. It includes the operations of Cypress Capital Management Limited in Vancouver, Highstreet Asset Management in London and Doherty and Associates in Ottawa and Montreal.

### Segment Strategy and Highlights

Our goal is to deliver strong long-term investment performance and client service excellence to the retail mutual fund, institutional and high-net-worth markets. We continue to grow and strengthen our relationships with advisors and strategic distribution partners and provide a diverse suite of investment solutions. We strive to build strong portfolio management teams to ensure continuity and strength in investment management and to leverage our in-house investment management expertise across multiple client channels.

During the second quarter of 2010, our mutual fund AUM grew by 2.2% to \$21.4 billion due to market appreciation over the 12 month period. Mutual fund net redemptions were \$477.0 million compared with \$125.0 million in the second quarter of last year. We are working diligently to return to positive mutual fund sales through a variety of activities and initiatives.

On the retail side of the business, we launched two new funds during the second quarter: the AGF Pure Canadian Balanced Fund and the AGF Traditional Income Fund. We also announced the launch of the AGF Global Aggregate Bond Fund expected in the third quarter of this year. These funds further diversify our product suite and meet investor preferences for products offering income and safety. They also support our ongoing work to align our product offering and sales efforts with the industry's top-selling fund categories.

Our sales team continued to maintain high levels of client engagement activities across the country to ensure the AGF brand remains top of mind among advisors and our strategic account partners. We remain aggressive in our pursuit of potential partnerships and placement of our products on recommended lists.

On the institutional side, our institutional and strategic accounts AUM increased 35.1% to \$18.5 billion from \$13.7 billion in the second quarter of last year due to market appreciation and positive sales. We added the Global Resources mandate to our offering of institutional investment strategies in response to client interest and are currently developing two additional new mandates for expected launch later in 2010.

## Assets Under Management

The primary sources of revenue for AGF's Investment Management Operations segment are management and advisory fees. The amount of management and advisory fees depend 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. These fees are based on a specified percentage of the average daily net asset value of the respective fund. In addition, we earn fees on our institutional, strategic accounts and high-net-worth client 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, 2010 and 2009:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2010	2009	% change	2010	2009	% change
Mutual fund AUM, beginning of period	\$ 22,076	\$ 18,062	22.2%	\$ 22,746	\$ 19,761	15.1%
Gross sales of mutual funds	660	694	(4.9%)	1,400	1,338	4.6%
Redemptions of mutual funds	(1,137)	(819)	38.8%	(2,213)	(1,677)	32.0%
Net mutual fund sales	(477)	(125)	281.6%	(813)	(339)	139.8%
Market appreciation (depreciation) of fund portfolios	(225)	2,970	n/m	(559)	1,485	n/m
Mutual fund AUM, end of period	\$ 21,374	\$ 20,907	2.2%	\$ 21,374	\$ 20,907	2.2%
Institutional and strategic accounts AUM	18,548	13,728	35.1%	18,548	13,728	35.1%
High-net-worth AUM	2,970	2,794	6.3%	2,970	2,794	6.3%
Total AUM, end of period	\$ 42,892	\$ 37,429	14.6%	\$ 42,892	\$ 37,429	14.6%
Average daily mutual fund AUM for the period	\$ 22,236	\$ 19,652	13.1%	\$ 22,392	\$ 19,404	15.4%

Global market improvements resulted in an increase in mutual fund AUM to \$21.4 billion at May 31, 2010 from \$20.9 billion as at May 31, 2009. The average daily mutual fund AUM for the six months ended May 31, 2010 increased 15.4% to \$22.4 billion, compared with \$19.4 billion for the same period in 2009. Institutional and strategic accounts AUM increased by \$4.8 billion to \$18.5 billion as a result of market appreciation and the addition of new institutional mandates over the past 12 months. High-net-worth AUM increased by 6.3% to \$3.0 billion at May 31, 2010. This resulted in a total AUM increase of 14.6% to \$42.9 billion.

Stock market performance influences the level of AUM. During the three and six months ended May 31, 2010, the Canadian-dollar-adjusted S&P 500 Index decreased 1.6% and 0.7%, the Canadian-dollar-adjusted NASDAQ Index increased 0.1% and 4.1%, and the S&P/TSX Composite Index increased 1.9% and 4.2%. The aggregate market depreciation of our mutual fund portfolios for the three and six months ended May 31, 2010, divided by the average daily mutual fund AUM for the period was 1.0% and 2.5%, respectively, after management fees and expenses paid by the funds.

The impact of the U.S. dollar depreciation relative to the Canadian dollar on the market value of AGF mutual funds for the three months and six months ended May 31, 2010, has been a decrease in AUM of approximately \$33.5 million and \$50.8 million, respectively.

## Financial and Operational Results

The table below highlights the Investment Management Operations segment results for the three and six months ended May 31, 2010 and 2009:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2010	2009	% change	2010	2009	% change
Revenue						
Management and advisory fees	\$ 124.6	\$ 105.2	18.4%	\$ 248.1	\$ 207.9	19.3%
Deferred sales charges	6.1	5.6	8.9%	11.8	11.6	1.7%
Investment income and other revenue	1.5	2.2	(31.8)%	3.0	3.4	(11.8)%
	132.2	113.0	17.0%	262.9	222.9	17.9%
Expenses						
Selling, general and administrative	39.3	38.7	1.6%	78.5	83.2	(5.6)%
Trailing commissions	35.2	30.0	17.3%	69.9	57.5	21.6%
Investment advisory fees	2.3	2.5	(8.0)%	4.7	5.6	(16.1)%
	76.8	71.2	7.9%	153.1	146.3	4.6%
EBITDA <sup>1</sup>	55.4	41.8	32.5%	109.8	76.6	43.3%
Amortization	21.4	23.5	(8.9)%	43.2	47.7	(9.4)%
Income before taxes and non-segmented items	\$ 34.0	\$ 18.3	85.8%	\$ 66.6	\$ 28.9	130.4%

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

### Revenue

For the three and six months ended May 31, 2010, revenue for the Investment Management Operations segment increased by 17.0% and 17.9% over the previous year, with changes in the categories as follows:

#### Management and Advisory Fees

Management and advisory fees are directly related to our AUM levels. The 13.1% and 15.4% increase in average daily mutual fund AUM for the three and six months ended May 31, 2010 combined with a 30.3% increase in institutional, strategic accounts and high-net-worth AUM at May 31, 2010 contributed to a 18.4% and 19.3% increase in management and advisory fee revenue for the three and six months ended May 31, 2010 compared to 2009.

#### Deferred Sales Charges (DSC)

We receive deferred sales charges upon redemption of securities sold on the contingent DSC or low-load commission basis for which we finance the selling commissions paid to the dealer. The DSC ranges from 2.5% to 5.0%, depending on the commission option, of the original subscription price of the funds purchased if the funds are redeemed within the first two years, and declines to zero after three or 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 increased by 8.9% and 1.7% in the three and six months of 2010 compared with 2009, due to higher redemptions of back-end assets as well as a higher proportion of redemptions at a higher DSC rate in the six month period.



## Expenses

For the three and six month periods ended May 31, 2010, expenses for the Investment Management Operations segment increased 7.9% and 4.6% from the previous year. Changes in specific categories are described in the discussion that follows:

### Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased by \$0.6 million in the three months ended May 31, 2010 and decreased by \$4.7 million in the six months ended May 31, 2010 compared to same periods in 2009. This represents a 1.6% increase and 5.6% decrease over the same periods in 2009. The changes are made up of the following amounts:

(\$ millions)	Three months ended May 31, 2010		Six months ended May 31, 2010	
Increase (decrease) in severance and restructuring expenses	\$	(3.8)	\$	(5.9)
Increase (decrease) in compensation-related expenses		1.0		(1.3)
Increase (decrease) in other expenses		3.7		4.8
Increase (decrease) in fund absorption expenses		(0.3)		(2.3)
	\$	0.6	\$	(4.7)

The following explains expense changes in the three and six month periods ended May 31, 2010 compared with the same periods in the prior year:

- Severance and restructuring expenses decreased \$3.8 million and \$5.9 million for the three and six months ended May 31, 2010 reflecting the restructuring that took place in 2009.
- Compensation-related expenses increased during the quarter primarily due to higher stock-based compensation and decreased during the six months ended May 31, 2010 due to staff reductions offset by higher stock-based compensation.
- Other expenses increased \$3.7 million and \$4.8 million due to higher sales and marketing costs associated with increased operational activity.
- Fund absorption expenses declined \$0.3 million and \$2.3 million reflecting higher AUM levels.

### Trailing Commissions

Trailing commissions paid depend on total AUM, the proportion of mutual fund AUM sold on a front-end versus back-end commission basis and the proportion of equity fund AUM versus fixed-income fund AUM. Trailing commissions as a percentage of average daily mutual fund AUM were 0.63% and 0.62% for the three and six months ended May 31, 2010, compared to 0.61% and 0.59% in same periods of 2009.

### Investment Advisory Fees

External investment advisory fees decreased by 8.0% and 16.1% during the three and six months ended May 31, 2010 as compared to the same periods in 2009. The decrease relates to the repatriation of certain mandates.

### EBITDA and EBITDA margin

EBITDA for the Investment Management Operations segment were \$55.4 million and \$109.8 million for the three and six months ended May 31, 2010, a 32.5% and 43.3% increase from \$41.8 million and \$76.6 million for the same periods a year earlier. The increase is directly attributable to higher revenue levels resulting from higher average AUM.

EBITDA margins improved to 41.9% and 41.8% for the three and six months ended May 31, 2010 compared with 37.0% and 34.4% in 2009.

### Amortization

The most significant component in this category is amortization of deferred selling commissions. The category also represents amortization of property, equipment, customer contracts and other intangible assets. We internally finance all selling commissions paid. These selling commissions are capitalized and amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule. Amortization expense related to deferred selling commissions was \$19.7 million and \$39.9 million for the three and six months ended May 31, 2010, compared with \$21.1 million and \$43.4 million for the same periods of 2009.

During the three and six months ended May 31, 2010, we paid \$15.2 million and \$29.1 million in selling commissions, compared with \$15.4 million and \$27.9 million in the same periods of 2009 reflecting a 4.9% decrease in gross sales in the three month period and 4.6% increase in gross sales in the six month period. As at May 31, 2010, the unamortized balance of deferred

selling commissions financed was \$263.2 million (November 30, 2009 - \$274.0 million). The contingent deferred sales charges that would be received if all of the DSC securities were redeemed at May 31, 2010, were estimated to be approximately \$335.9 million (November 30, 2009 - \$373.6 million).

## Trust Company Operations

### Business and Industry Profile

Through AGF Trust, we offer financial solutions, including GICs, real estate secured and investment loans.

AGF Trust investment loans consist of secured investment loans and RSP loans distributed through financial advisors who continue to broaden their suite of products to meet the needs of their clients. AGF Trust has a competitive edge in the advisor channel as we leverage AGF's mutual fund wholesaler relationships. Our mutual fund wholesalers have operated successfully in the advisor channel for many years and have a well-established reputation for quality service.

We offer real estate secured loans to Canadians who have sound credit, but whose circumstances may not meet the traditional requirements of Canada's large banks to qualify for their lowest rate real estate secured loan products. Real estate secured loan products are distributed through the mortgage broker channel. Borrowers have chosen to deal with mortgage brokers to take advantage of independent advice and competitive rates. Lenders have provided real estate secured loans in this channel to reduce distribution costs. Launched in the second quarter of 2010, AGF Trust now also offers a prime residential mortgage product which is distributed through the advisor channel.

### Segment Strategy and Highlights

In 2009 our strategy to effectively manage through the economic downturn was to reduce loan balances with the objective of improving our regulatory capital position. As a result of this strategy, we have strengthened our capital position and, with an improving economic backdrop, are in a position to focus on controlled growth in our lending programs. We launched our 2010 RSP loan program late in 2009 and have commenced new mortgage originations. During the second quarter of 2010, we launched a prime residential mortgage product in the advisor channel in Ontario and are planning a roll-out of the product across Canada over the remainder of the year. We also continue to redesign our existing investment loan offerings to meet current and future environmental and competitive circumstances.

We remain focused on responsible management of our loan portfolios and continuous improvement in our credit, underwriting and collections' policies and procedures to mitigate risk and reduce potential losses. The majority of funding for the lending and investment activity continues to be through the sale of GICs and we remain confident in our ability to raise funds through this channel.

For the three and six months ended May 31, 2010, loan originations were \$39.9 million and \$90.3 million compared to \$13.3 million and \$63.5 million in the previous year. Net loan writeoffs were \$7.8 million and \$13.7 million for the three and six months ended May 31, 2010, compared to \$10.0 million and \$14.3 million in the previous year.

As at May 31, 2010, collateral value declines have resulted in approximately \$327.9 million of unsecured exposures in our secured investment loan portfolio compared to approximately \$445.3 million of unsecured exposures as at May 31, 2009. This improvement was directly related to rising equity markets. Our investment loan program is used by independent investment advisors as part of their overall investment strategy for their clients. We believe that the investment advisor is an integral part of their clients' investment strategies. Combined with other mitigating factors such as relatively high credit scores, sound underwriting and historical experience of other financial institutions with this type of product with little evident correlation between collateral values and propensity to default, we expect that clients will continue to service their debt despite a decline in equity values.

The weighted average loan-to-value ratio on our conventional mortgage loan portfolio, as at May 31, 2010, was 64.7% (November 30, 2009 - 65.3%).

## Financial and Operational Results

The Trust Company Operations segment results for the three and six months ended May 31, 2010 and 2009 are as follows:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2010	2009	% change	2010	2009	% change
Interest income						
Loan interest	\$ 42.1	\$ 53.9	(21.9)%	\$ 85.0	\$ 114.9	(26.0)%
Investment interest	3.5	4.7	(25.5)%	6.5	10.4	(37.5)%
	45.6	58.6	(22.2)%	91.5	125.3	(27.0)%
Interest expense						
Deposit interest	32.9	46.6	(29.4)%	66.8	94.9	(29.6)%
Hedging interest income	(14.4)	(19.9)	27.6%	(28.8)	(34.1)	15.5%
Other interest expense	4.7	6.2	(24.2)%	9.5	12.3	(22.8)%
	23.2	32.9	(29.5)%	47.5	73.1	(35.0)%
Net interest income	22.4	25.7	(12.8)%	44.0	52.2	(15.7)%
Other revenue	2.0	2.0	0.0%	3.8	4.1	(7.3)%
RSP loan securitization income (loss), net of impairment	0.4	0.5	(20.0)%	0.9	(1.0)	n/m
Total revenue	24.8	28.2	(12.1)%	48.7	55.3	(11.9)%
Expenses						
Selling, general and administrative	9.5	8.4	13.1%	18.4	17.0	8.2%
Provision for loan losses	4.9	14.9	(67.1)%	8.8	26.4	(66.7)%
	14.4	23.3	(38.2)%	27.2	43.4	(37.3)%
EBITDA <sup>1</sup>	10.4	4.9	112.2%	21.5	11.9	80.7%
Amortization	0.7	0.7	0.0%	1.3	1.4	(7.1)%
Income before taxes and non-segmented items	\$ 9.7	\$ 4.2	131.0%	\$ 20.2	\$ 10.5	92.4%

<sup>1</sup> For the definition of EBITDA, see the "Key Performance Indicators and Non-GAAP Measures" section. The items required to reconcile EBITDA to net income, a defined term under Canadian GAAP, are detailed above.

### Revenue, Net Interest Income and Net Interest Margin

Net interest income, which is expressed net of interest on deposits and other interest expenses, was lower by 12.8% and 15.7% for the three and six months ended May 31, 2010 compared to the same periods in 2009. The decreases were primarily due to decreases in average loan balances of 18.4% and 18.7% for the three and six months ended May 31, 2010 compared to the prior year periods. The average net interest margin on lending products was 2.6% during the three months ended May 31, 2010 (2009 – 2.5%). AGF Trust manages its interest rate risk through the use of interest rate swaps. Interest expense includes hedging interest income of \$14.4 million and \$28.8 million related to interest rate swaps for the three and six months ended May 31, 2010 (2009 – \$19.9 million and \$34.1 million). Other revenue was unchanged in the second quarter of 2010 compared with the prior year but decreased 7.3% in the six months ended May 31, 2010 primarily due to a \$0.9 million decrease related to hedge ineffectiveness. During the three and six months ended May 31, 2010, the Trust Company recognized a \$0.3 million and \$0.6 million writedown of its retained interest in securitized RSP loans compared to a \$0.3 million and \$2.8 million writedown in the same periods in 2009. These factors resulted in an overall revenue decrease of 12.1% and 11.9% in the three and six months ended May 31, 2010 as compared with 2009.

### Selling, General and Administrative Expenses

SG&A expenses increased to \$9.5 million and \$18.4 million in the three and six months ended May 31, 2010 compared with \$8.4 million and \$17.0 million in the same periods in 2009. The increase in the three months ended May 31, 2010 reflects higher compensation and information technology costs. The increase in the six months ended May 31, 2010 reflects higher information technology costs.

### Provision for Loan Losses

The total provision for loan losses decreased \$10.0 million to \$4.9 million in the second quarter of 2010 compared to \$14.9 million in 2009 reflecting improved economic conditions in 2010. The provision increased by \$1.0 million from the first quarter of 2010 due to an increase in provisions on RSP loans.

Based on our analysis of the RSP portfolio, we had approximately \$24.9 million of loan accounts which, based on certain loan characteristics, were assessed as having a significantly higher risk of default. Accordingly, we have recorded an allowance for loan losses of \$3.0 million against these accounts and in addition, we have written off \$16.8 million of these loans as at May 31, 2010, resulting in an existing net exposure of approximately \$5.1 million.

### EBITDA and EBITDA margin

A decrease in the loan loss provision, partly offset by a decline in revenue and an increase in SG&A costs, contributed to an increase in EBITDA for the three and six months ended May 31, 2010 to \$10.4 million and \$21.5 million compared to \$4.9 million and \$11.9 million in the same periods in 2009. EBITDA margin increased to 41.9% and 44.1% from 17.4% and 21.5% over the same periods of 2009.

### Pre-Tax Profit Margin

As a result of the factors outlined above, pre-tax margin increased to 39.1% and 41.5% in the three and six months ended May 31, 2010 from 14.9% and 19.0% in the same periods in 2009.

## Operational Performance

The table below highlights our key operational measures for the segment for the three and six months ended May 31, 2010 and 2009:

(\$ millions)	Three months ended May 31,			Six months ended May 31,		
	2010	2009	% change	2010	2009	% change
Real estate secured loans <sup>1</sup>						
Insured mortgage loans	\$ 442.3	\$ 573.2	(22.8)	\$ 442.3	\$ 573.2	(22.8)
Conventional mortgage loans	472.8	671.9	(29.6)	472.8	671.9	(29.6)
HELOCs	323.4	550.8	(41.3)	323.4	550.8	(41.3)
	1,238.5	1,795.9	(31.0)	1,238.5	1,795.9	(31.0)
Investment loans <sup>1</sup>						
Secured investment loans	1,689.5	1,768.2	(4.5)	1,689.5	1,768.2	(4.5)
RSP loans	418.7	491.1	(14.7)	418.7	491.1	(14.7)
Other loans	3.3	7.9	(58.2)	3.3	7.9	(58.2)
	2,111.5	2,267.2	(6.9)	2,111.5	2,267.2	(6.9)
Other assets	890.6	932.3	(4.5)	890.6	932.3	(4.5)
Total assets	4,240.6	4,995.4	(15.1)	4,240.6	4,995.4	(15.1)
Net interest income	22.4	25.7	(12.8)	44.0	52.2	(15.7)
RSP loan securitization income (loss), net of impairment	0.4	0.5	(20.0)	0.9	(1.0)	n/m
Other revenue	2.0	2.0	0.0	3.8	4.1	(7.3)
Non-interest expenses <sup>2</sup>	(10.2)	(9.1)	12.1	(19.7)	(18.4)	7.1
Provision for loan losses	(4.9)	(14.9)	(67.1)	(8.8)	(26.4)	(66.7)
Income before taxes and non-segmented items	\$ 9.7	\$ 4.2	131.0	\$ 20.2	\$ 10.5	92.4
Efficiency ratio <sup>3</sup>	41.1%	32.3%		40.5%	33.3%	
Assets-to-capital multiple <sup>3</sup>	10.8	13.7		10.8	13.7	

<sup>1</sup> Includes loan provision and deferred sales commission.

<sup>2</sup> Includes SG&A and amortization expenses.

<sup>3</sup> For the definition of efficiency ratio and assets-to-capital multiple, see the "Key Performance Indicators and Non-GAAP Measures" section.

### **Loan Asset Growth**

Real estate secured loan assets decreased by 31.0% year-over-year. Secured investment loans decreased by 4.5% to \$1.7 billion as at May 31, 2010, compared with 2009 while RSP loan balances and other loans decreased \$77.0 million or 15.4%.

### **Efficiency Ratio**

The efficiency ratio is defined as non-interest expenses divided by the total of net interest income and non-interest income. It is a key industry performance indicator used to ensure expenses are contained as the Trust business grows. During the three months ended May 31, 2010, the efficiency ratio experienced an unfavourable change to 41.1% from 32.3% in the second quarter of 2009. The efficiency ratio for the six month period ended May 31, 2010 was 40.5% compared to 33.3% for the six month period ended May 31, 2009.

The increase is due to lower revenue as a result of the declining loan balances combined with an increase in non-interest expense.

### **Balance Sheet**

Total assets decreased to \$4.2 billion as at May 31, 2010, compared with the same period in the previous year and decreased 5.8% compared to November 30, 2009. As at May 31, 2010, our assets-to-capital multiple stood at 10.8 times, compared with 13.7 times at the same time last year and 12.0 times at November 30, 2009. Our risk-based capital ratio was 20.6% as at May 31, 2010 compared to 19.0% at November 30, 2009. Liquid assets remained high with \$794.3 million in cash and cash equivalents as well as investments available for sale as at May 31, 2010 (2009 – \$768.7 million).

### **Loan Portfolio Credit**

The credit risk factors considered when assessing the collectability of the various loan portfolios are primarily based on the individuals' ability and willingness to make future loan payments, coupled with the underlying collateral security held for each of the loan categories. The key risk factors considered include:

- Employment rates: higher unemployment rates will likely result in higher default rates as individuals' ability to pay deteriorates.
- Residential property prices and sales volume: declining residential property prices and reduced volumes of residential property sales may result in lower resale prices and longer disposal times, therefore, increasing losses incurred on the disposition of the property.
- Equity market performance: declining global equity markets present increased risk on the secured investment loan portfolio as the value of the underlying collateral is lower. While the Trust Company has recourse to the personal assets of clients with respect to investment loans, the global macro-economic situation and employment levels may impede the Trust Company's ability to realize on the full value of the loan.

The general allowance for real estate secured loan losses increased to \$9.2 million as compared to \$8.8 million a year ago. This included a general allowance for insured mortgage loans of \$3.9 million (2009 – nil) which was set up in the fourth quarter of 2009 in response to certain mortgage insurers taking a stricter interpretation of policy exclusions for fraud and misrepresentation as a result of the current environment. The general allowance for investment loan losses decreased to \$14.0 million from \$17.3 million in 2009 due to a reduction of loan writeoffs. Approximately 48.3% of real estate secured loan assets, excluding HELOCs, are insured. We have security for non-RSP investment loans, consisting of mutual funds and other investments. The value of this collateral fluctuates with the changes in the underlying investments. The amount of RSP loans written off, net of recoveries (excluding securitized RSP loans) was \$7.7 million for the six months ended May 31, 2010 (2009 – \$10.0 million). For our other loan products, loan writeoffs, net of recoveries, for the six months ended May 31, 2010, were \$4.0 million (2009 – \$2.1 million) in the secured investment loan portfolio, \$1.8 million (2009 - \$2.2 million) in the mortgage loan portfolio and \$0.2 million (2009 – nil) in HELOC receivables.

Impaired loans expressed as a percentage of loans outstanding was at 1.4% as at May 31, 2010, compared with 1.5% at May 31, 2009.

## AGF Management Limited

### Liquidity and Capital Resources

Consolidated cash flow generated from operating activities, before net change in non-cash balances related to operations, was \$61.9 million and \$121.3 million for the three and six months ended May 31, 2010, compared with \$44.7 million and \$91.4 million in the prior year.

In the three and six months ended May 31, 2010, we paid \$15.2 million and \$29.1 million in selling commissions, which were capitalized and amortized for accounting purposes, compared with \$15.4 million and \$27.9 million in 2009. Accordingly, our free cash flow (defined as cash flow from operations less selling commissions paid) was \$46.7 million and \$92.2 million for the three and six months ended May 31, 2010, compared with \$29.3 million and \$63.5 million in the prior year.

In addition to our free cash flow, the following items impacted our change in cash position and bank indebtedness:

(\$ millions)	Source (use)			
	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Net change in non-cash balances related to operations	\$ (5.0)	\$ 7.3	\$ (55.5)	\$ (33.4)
Net cash change in Class B Non-Voting shares	0.7	-	1.5	-
Dividends	(22.6)	(21.4)	(44.2)	(43.0)
Purchase of property, equipment and computer software	(0.6)	(0.3)	(0.8)	(1.0)
Purchase of investments <sup>1</sup>	(17.9)	(264.6)	2.7	(278.0)
Trust deposits, net of loans	(28.6)	(42.9)	15.0	4.0
	\$ (74.0)	\$ (321.9)	\$ (81.3)	\$ (351.4)

<sup>1</sup> Includes net investment purchase of investments available for sale of \$15.4 million at AGF Trust during the three months ended May 31, 2010 (2009 – \$264.2 million) and net investment maturity of \$3.5 million during the six months ended May 31, 2010 (2009 – net investment purchase of \$274.2 million).

Our revolving term loan balance of \$162.2 million decreased \$22.6 million from February 28, 2010 and increased \$5.5 million from November 30, 2009 (2009 – increased \$16.8 million and increased \$70.9 million in the comparable periods). Consolidated cash and cash equivalents of \$291.1 million increased by \$16.2 million from November 30, 2009 levels of \$274.9 million and decreased by \$49.7 million from February 28, 2010 levels of \$340.8 million (2009 – decreased by \$236.2 million and decreased by \$294.6 million in the comparable periods).

We have a three-year, prime rate-based revolving term loan facility to a maximum of \$300.0 million, of which \$132.4 million was available to be drawn as at May 31, 2010. Aside from cash held in the Trust Company Operations segment, which is held to fund loans to clients and GIC maturities, AGF had \$27.2 million of cash as at May 31, 2010 (November 30, 2009 – \$32.6 million). The loan 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.

### Capital Management Activities

We actively manage our capital to maintain a strong and efficient capital base to maximize risk-adjusted returns to shareholders, to invest in future growth opportunities, including acquisitions, and to ensure that the regulatory capital requirements are met for each of our subsidiary companies.

AGF capital consists of shareholders' equity. On an annual basis, AGF prepares a five-year plan detailing projected operating budgets and capital requirements. Each of AGF's operating segments are required to prepare and submit a five-year operating plan and budget to AGF's Finance Committee for approval prior to seeking Board approval. AGF's Finance Committee consists of the Chairman and CEO, the Vice-Chairman, Senior Vice-President and CFO, and the General Counsel, Executive Vice-President and Chief Operating Officer. Once approved by the Finance Committee, the five-year plans are reviewed and approved by AGF's Board of Directors. These plans become the basis for the payment of dividends to shareholders, the repurchase of Class B Non-Voting shares and, combined with the reasonable use of leverage, the source of funds for acquisitions.

### Investment Management Operations – Regulatory Capital

A significant objective of the Capital Management program is to ensure regulatory requirements are met for capital. Our Investment Management businesses, in general, are not subject to significant regulatory capital requirements in each of the jurisdictions in which they are registered and operate. The cumulative amount of minimum regulatory capital across all of our investment management operations is approximately \$6.0 million.

### AGF Trust – Capital Management Framework

AGF Trust's regulatory capital consists primarily of common shareholders' equity, preferred shares and subordinated debentures. Regulatory capital is a factor that allows the AGF Trust Board of Directors (Trust Board) to assess the stability and security in relation to the overall risks inherent in AGF Trust's activities.

AGF Trust actively manages regulatory capital levels in conjunction with management's internal assessment of capital. Consideration is given to many factors including regulatory guidance, strategic planning, shareholder interests, interests of depositors and internally generated target capital ratios. Regulatory capital is set by regulatory authorities. Effective January 1, 2008, AGF Trust calculates and reports regulatory capital ratios in accordance with the framework specified by the Bank for International Settlements (BIS) (commonly known as Basel II). AGF Trust adopted the Standardized Approach for credit risk and the Basic Indicator Approach for operational risk.

A key component of AGF Trust's capital framework is its internal capital adequacy assessment process (ICAAP). This process attributes capital for identified risks in proportion to the assessed risk. Risks are assessed using both qualitative and quantitative factors. The process also incorporates a variety of stress testing approaches to evaluate the income and capital impacts of potential stress events.

### Normal Course Issuer Bid

In January 2010, the Company's Board of Directors authorized the renewal of AGF's normal course issuer bid for the purchase of up to 7,167,620 Class B Non-Voting shares, or 10% of the public float for such shares. The Company received approval from the Toronto Stock Exchange on February 24, 2010, for the renewal of its normal course issuer bid. This allows AGF to purchase up to 7,167,620 Class B Non-Voting shares through the facilities of the Toronto Stock Exchange (or as otherwise permitted by the Toronto Stock Exchange) between February 26, 2010 and February 25, 2011. The Class B Non-Voting shares may be repurchased from time to time at prevailing market prices or such other price as may be permitted by the Toronto Stock Exchange.

As at May 31, 2010, under this current normal course issuer bid, no Class B Non-Voting shares have been repurchased. AGF's previous normal course issuer bid allowed for the repurchase of up to 7,108,630 Class B Non-Voting shares between February 26, 2009 and February 25, 2010, at prevailing market prices. Under the previous normal course issuer bid, AGF purchased no Class B Non-Voting shares.

## Dividends

For the three months ended May 31, 2010, we declared a 26-cents per share dividend on Class A Voting common and Class B Non-Voting shares. This dividend will be payable on July 20, 2010, to shareholders of record on July 8, 2010.

The holders of Class B Non-Voting and Class A Voting common shares are entitled to receive cash dividends. Dividends are paid in equal amounts per share on all the Class B Non-Voting shares and all the Class A Voting common shares at the time outstanding without preference or priority of one share over another. No dividends may be declared in the event that there is a default of a condition of our loan facility or where such payment of dividends would create a default.

Our Board of Directors may determine that Class B Non-Voting shareholders shall have the right to elect to receive part or all of such dividend in the form of a stock dividend. They also determine whether a dividend in Class B Non-Voting shares is substantially equal to a cash dividend. This determination is based on the weighted average price at which the Class B Non-Voting shares traded on the Toronto Stock Exchange during the 10 trading days immediately preceding the record date applicable to such dividend.

The following table sets forth the dividends paid by AGF on Class B Non-Voting shares and Class A Voting common shares for the years indicated:

Years ended November 30	2010 <sup>1</sup>	2009	2008	2007	2006
Per share	\$ 0.77	\$ 1.00	\$ 0.95	\$ 0.78	\$ 0.69
Percentage increase	–	5%	22%	13%	37%

The total of dividends paid in January 2010 and April 2010, and to be paid in July 2010.

We review our dividend distribution policy on a quarterly basis, taking into account our financial position, profitability, cash flow and other factors considered relevant by our Board of Directors.

## Outstanding Share Data

Set out below is our outstanding share data as at May 31, 2010 and 2009. For additional detail, see Note 10 to the Q2 2010 Consolidated Financial Statements.

<b>As at M ay 31</b>	<b>2010</b>	<b>2009</b>
Shares		
Class A Voting common shares	57,600	57,600
Class B Non-Voting shares	89,310,247	88,822,218
Stock Options		
Outstanding options	5,618,549	6,089,149
Exercisable options	2,672,889	2,383,233



## Selected Quarterly Information

(\$ millions, except per share amounts) For the three-month period ended	May 31, 2010	Feb. 28, 2010	Nov. 30, 2009	Aug. 31, 2009
Revenue	\$ 153.8	\$ 156.2	\$ 157.7	\$ 146.9
Cash flow <sup>1</sup>	61.9	59.4	65.7	49.0
EBITDA <sup>2</sup>	62.6	67.1	71.6	56.1
Pre-tax income	38.3	42.6	46.6	30.4
Net income	27.5	30.6	45.5	22.8
Earnings per share				
Basic	\$ 0.31	\$ 0.34	\$ 0.51	\$ 0.26
Diluted	\$ 0.30	\$ 0.34	\$ 0.50	\$ 0.25
Weighted average basic shares	89,332,374	89,211,983	89,072,123	88,914,200
Weighted average fully diluted shares	90,482,468	90,390,172	90,331,497	89,931,517

(\$ millions, except per share amounts) For the three-month period ended	May 31, 2009	Feb. 28, 2009	Nov. 30, 2008	Aug. 31, 2008
Revenue	\$ 143.5	\$ 138.0	\$ 152.2	\$ 184.7
Cash flow <sup>1</sup>	44.7	46.7	57.4	66.3
EBITDA <sup>2</sup>	49.0	42.8	54.0	81.5
Pre-tax income	23.0	16.3	(24.1)	51.1
Net income	17.2	12.2	(19.3)	41.1
Earnings per share				
Basic	\$ 0.19	\$ 0.14	\$ (0.21)	\$ 0.46
Diluted	\$ 0.19	\$ 0.14	\$ (0.21)	\$ 0.46
Weighted average basic shares	88,826,605	88,564,160	89,446,562	89,451,578
Weighted average fully diluted shares	89,234,015	88,564,160	90,679,048	89,870,475

<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 three months ended May 31, 2010, our 2009 annual MD&A and Consolidated Financial Statements, our 2009 Annual Information Form (AIF) and other documents filed with applicable securities regulators in Canada. They may be accessed at [www.sedar.com](http://www.sedar.com).

AGF Management Limited  
CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2010



What are you doing after work?

AGF Management Limited  
Consolidated Balance Sheet

(\$ thousands)	May 31, 2010 (unaudited)	November 30, 2009 (audited)
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 291,083	\$ 274,870
Investments available for sale (note 2(a))	550,940	550,480
Accounts receivable, prepaid expenses and other assets	88,491	98,745
Current portion of retained interest from securitization (note 3)	2,908	3,550
Real estate secured and investment loans due within one year (note 6)	499,905	537,683
	1,433,327	1,465,328
Retained interest from securitization (note 3)	36,574	36,898
Real estate secured and investment loans (note 6)	2,850,118	3,057,072
Investment in associated company (note 2(b))	74,070	90,447
Management contracts	504,269	504,269
Customer contracts, net of accumulated amortization	12,802	14,221
Goodwill	173,708	173,708
Trademarks	1,935	1,935
Deferred selling commissions, net of accumulated amortization	263,151	273,959
Property, equipment and computer software, net of accumulated amortization	11,688	14,127
Other assets (note 7)	15,109	43,958
<b>Total assets</b>	<b>\$ 5,376,751</b>	<b>\$ 5,675,922</b>
<b>Liabilities and shareholders' equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 240,349	\$ 284,043
Future income taxes	20,208	22,190
Long-term debt due within one year (note 8)	40,625	13,083
Deposits due within one year (note 6(f))	1,656,748	1,884,235
	1,957,930	2,203,551
Deposits (note 6(f))	2,008,893	2,034,328
Long-term debt (note 8)	121,576	143,648
Future income taxes	134,096	146,909
Other long-term liabilities (note 9)	15,476	16,675
<b>Total liabilities</b>	<b>4,237,971</b>	<b>4,545,111</b>
Non-controlling interest	436	408
Shareholders' equity		
Capital stock (note 10)	441,605	438,612
Contributed surplus	21,345	19,964
Retained earnings	697,610	685,063
Accumulated other comprehensive loss (note 11)	(22,216)	(13,236)
<b>Total shareholders' equity</b>	<b>1,138,344</b>	<b>1,130,403</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,376,751</b>	<b>\$ 5,675,922</b>

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statement of Income

(unaudited) (\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
<b>Revenue</b>				
Management and advisory fees	\$ 124,558	\$ 105,242	\$ 248,069	\$ 207,895
Deferred sales charges	6,134	5,533	11,842	11,582
RSP loan securitization income (loss), net of impairment (note 3)	474	560	936	(981)
Investment income and other revenue	131	6,516	5,136	10,809
	131,297	117,851	265,983	229,305
AGF Trust interest income (note 13)	45,628	58,580	91,499	125,319
AGF Trust interest expense (note 13)	(23,171)	(32,903)	(47,484)	(73,129)
AGF Trust net interest income	22,457	25,677	44,015	52,190
<b>Total revenue</b>	<b>153,754</b>	<b>143,528</b>	<b>309,998</b>	<b>281,495</b>
<b>Expenses</b>				
Selling, general and administrative	48,849	47,288	96,889	100,327
Trailing commissions	35,229	29,907	69,938	57,453
Investment advisory fees	2,335	2,460	4,698	5,600
Amortization of deferred selling commissions	19,733	21,076	39,854	43,365
Amortization of customer contracts	710	1,263	1,419	2,036
Amortization of property, equipment and computer software	1,575	1,891	3,234	3,753
Interest expense	2,053	1,571	3,887	3,131
Provision for AGF Trust loan losses (note 6(e))	4,819	14,885	8,763	26,353
	115,303	120,341	228,682	242,018
Income before income taxes and non-controlling interest	38,451	23,187	81,316	39,477
Income tax expense (recovery)				
Current	15,211	14,484	26,184	21,081
Future	(4,444)	(8,687)	(3,415)	(11,212)
	10,767	5,797	22,769	9,869
Non-controlling interest (note 5)	255	134	479	200
Net income for the period	\$ 27,429	\$ 17,256	\$ 58,068	\$ 29,408
Earnings per share (note 10(g))				
Basic	\$ 0.31	\$ 0.19	\$ 0.65	\$ 0.33
Diluted	\$ 0.30	\$ 0.19	\$ 0.64	\$ 0.33

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statement of Changes in Shareholders' Equity

(unaudited) (\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
<b>Capital Stock</b>				
Balance, beginning of period	\$ 440,099	\$ 432,478	\$ 438,612	\$ 431,897
Issued through dividend reinvestment plan	654	800	1,315	1,381
Stock options exercised	852	-	1,678	-
Issued on acquisition of Highstreet Partners Limited (note 5)	-	1,536	-	1,536
Balance, end of period	441,605	434,814	441,605	434,814
<b>Contributed surplus</b>				
Balance, beginning of period	20,676	17,978	19,964	17,127
Stock options	669	825	1,381	1,676
Balance, end of period	21,345	18,803	21,345	18,803
<b>Retained earnings</b>				
Balance, beginning of period	693,404	666,208	685,063	676,190
Net income for the period	27,429	17,256	58,068	29,408
Dividends on AGF Class A Voting common shares and AGF Class B Non-Voting shares	(23,223)	(22,197)	(45,521)	(44,331)
Balance, end of period	697,610	661,267	697,610	661,267
<b>Accumulated other comprehensive loss</b>				
Balance, beginning of period	(16,957)	(22,657)	(13,236)	(17,792)
Other comprehensive income (loss)	(5,259)	2,357	(8,980)	(2,508)
Balance, end of period	(22,216)	(20,300)	(22,216)	(20,300)
<b>Total shareholders' equity</b>	<b>\$ 1,138,344</b>	<b>\$ 1,094,584</b>	<b>\$ 1,138,344</b>	<b>\$ 1,094,584</b>

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statement of Comprehensive Income

(unaudited) (\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
<b>Net income for the period</b>	\$ 27,429	\$ 17,256	\$ 58,068	\$ 29,408
<b>Other comprehensive income (loss), net of tax</b>				
Foreign currency translation adjustments related to net investments in self-sustaining foreign operations <sup>1</sup>	(3,543)	(1,935)	(9,606)	(5,642)
	(3,543)	(1,935)	(9,606)	(5,642)
<b>Net unrealized gain (loss) on available for sale securities</b>				
Unrealized gain (loss) <sup>2</sup>	(1,746)	4,118	554	2,660
Reclassification of realized loss or other than temporary impairment to earnings	–	116	–	350
	(1,746)	4,234	554	3,010
<b>Net unrealized gain (loss) on cash flow hedge</b>				
Reclassification of realized loss on cash flow hedge <sup>3</sup>	30	58	72	124
	30	58	72	124
Total other comprehensive income (loss), net of tax	\$ (5,259)	\$ 2,357	\$ (8,980)	\$ (2,508)
<b>Comprehensive income for the period</b>	\$ 22,170	\$ 19,613	\$ 49,088	\$ 26,900

<sup>1</sup> Net of income tax recovery of \$0.5 million and \$1.4 million for the three and six months ended May 31, 2010. Net of income tax recovery of \$0.4 million and \$1.0 million for the three and six months ended May 31, 2009.

<sup>2</sup> Net of income tax recovery of \$0.8 million and net of income tax expense of \$0.2 million for the three and six months ended May 31, 2010. Net of income tax expense of \$1.6 million and \$0.6 million for the three and six months ended May 31, 2009.

<sup>3</sup> Relates to derivative designated as cash flow hedge in prior periods.

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

AGF Management Limited  
Consolidated Statement of Cash Flow

(unaudited) (\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
<b>Operating Activities</b>				
Net income for the period	\$ 27,429	\$ 17,256	\$ 58,068	\$ 29,408
Items not affecting cash				
Amortization	22,018	24,230	44,507	49,154
Future income taxes	(4,444)	(8,687)	(3,415)	(11,212)
RSP loan securitization income (loss), net of impairment	(474)	(560)	(936)	981
Provision for AGF Trust loan losses	4,819	14,885	8,763	26,353
Stock-based compensation	1,800	1,495	3,527	2,806
Equity investment in S&WHL	3,290	(2,261)	1,615	(3,259)
Dividends from S&WHL	3,962	-	3,962	1,031
Other	3,420	(1,629)	5,138	(3,819)
	61,820	44,729	121,229	91,443
Net change in non-cash balances related to operations (note 12)	(4,970)	7,316	(55,463)	(33,417)
Net cash provided by operating activities	56,850	52,045	65,766	58,026
<b>Financing Activities</b>				
Issue of Class B Non-Voting shares	714	-	1,477	-
Dividends paid	(22,570)	(21,397)	(44,206)	(42,950)
Increase (decrease) in revolving term loan	(22,564)	16,838	5,470	70,914
Net decrease in AGF Trust deposits	(164,463)	(290,118)	(218,512)	(333,952)
Net cash used in financing activities	(208,883)	(294,677)	(255,771)	(305,988)
<b>Investing Activities</b>				
Deferred selling commissions paid	(15,183)	(15,387)	(29,122)	(27,905)
Proceeds from sale of discontinued operations (note 4)	-	702	-	702
Acquisition of subsidiaries, net of cash acquired (note 5)	-	(19,924)	-	(19,924)
Purchase of property, equipment and computer software	(585)	(334)	(795)	(1,044)
Net proceeds from sale (purchase) of investments available for sale	(17,861)	(264,594)	2,654	(278,041)
Net decrease in AGF Trust real estate secured and investment loans	135,936	247,224	233,481	338,016
Net cash provided by (used in) investing activities	102,307	(52,313)	206,218	11,804
<b>Increase (decrease) in cash and cash equivalents</b>	(49,726)	(294,945)	16,213	(236,158)
<b>Balance of cash and cash equivalents, beginning of period</b>	340,809	642,955	274,870	584,168
<b>Balance of cash and cash equivalents, end of period</b>	\$ 291,083	\$ 348,010	\$ 291,083	\$ 348,010
<b>Represented by:</b>				
Investment Management cash and cash equivalents			\$ 27,177	\$ 24,558
AGF Trust cash and cash equivalents			263,906	323,452
			\$ 291,083	\$ 348,010

Refer to Note 12 for supplemental cash flow information.

(The accompanying notes are an integral part of these Consolidated Financial Statements.)

# Notes to Consolidated Financial Statements

For the three and six months ended May 31, 2010 (unaudited)

These unaudited Q2 2010 Consolidated Financial Statements of AGF Management Limited (AGF or the Company) have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), using the same significant accounting policies as AGF's Consolidated Financial Statements for the year ended November 30, 2009. These financial statements do not contain all the disclosures required by Canadian GAAP for annual financial statements and should be read in conjunction with the Consolidated Financial Statements for the year ended November 30, 2009.

## Note 1: Changes in Accounting Policies

### Future Accounting Changes

#### Transition to International Financial Reporting Standards

The CICA Accounting Standards Board requires all Canadian publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. The Company will adopt IFRS for the fiscal year 2012 starting December 1, 2011. The fiscal 2012 Consolidated Financial Statements will include comparative 2011 financial results under IFRS. The Company will report its financial results for the quarter ended February 29, 2012 on an IFRS basis, including comparative IFRS financial results and an opening balance sheet as at December 1, 2010.

## Note 2: Investments Available for Sale and Investment in S&WHL

(a) The following table presents a breakdown of available for sale investments, excluding retained interest from securitization:

(\$ thousands)	May 31, 2010	November 30, 2009
AGF Trust:		
Canadian government debt <sup>1</sup>		
Federal	\$ –	\$ 10,179
Provincial	444,374	350,664
Deposits with regulated institutions	85,981	86,487
Other securities	–	83,426
	530,355	530,756
Investment Management:		
Canadian government debt		
Federal	297	297
AGF mutual funds and other	13,765	12,909
Equity securities	6,523	6,518
	20,585	19,724
	\$ 550,940	\$ 550,480

<sup>1</sup> Includes investments issued and/or guaranteed by the Canadian government.



The following table presents a breakdown of AGF Trust available for sale investments by maturity, excluding retained interest from securitization:

(\$ thousands)					Greater than	
May 31, 2010	Credit rating	1 Year or Less	1 to 5 years	5 years	Total	
AGF Trust:						
Canadian government debt						
Federal	–	\$ –	\$ –	\$ –	–	–
Provincial	A to AAA	86,549	323,969	33,856	444,374	
Deposits with regulated institutions	AA	85,981	–	–	85,981	
Other securities	–	–	–	–	–	
		\$ 172,530	\$ 323,969	\$ 33,856	\$ 530,355	

  

(\$ thousands)					Greater than	
November 30, 2009	Credit rating	1 Year or Less	1 to 5 years	5 years	Total	
AGF Trust:						
Canadian government debt						
Federal	AAA	\$ 10,179	\$ –	\$ –	10,179	
Provincial	A to AAA	45,842	264,572	40,250	350,664	
Deposits with regulated institutions	AA	–	86,487	–	86,487	
Other securities	AA High to AAA	83,426	–	–	83,426	
		\$ 139,447	\$ 351,059	\$ 40,250	\$ 530,756	

AGF Trust's available for sale investments include Government of Canada and provincial guaranteed bonds, bank-sponsored asset-backed commercial paper (ABCP), bank-sponsored asset-backed securities (ABSs), bank deposit notes and floating-rate notes (FRNs) with terms to maturity greater than three months. As at May 31, 2010, \$85.1 million of AGF Trust's available for sale investments were floating-rate securities subject to repricing (November 30, 2009 – \$114.7 million) and \$445.3 million were fixed-rate securities (November 30, 2009 – \$416.1 million). Other securities include FRN investments of nil (November 30, 2009 – \$29.7 million), ABS investments of nil (November 30, 2009 – \$28.7 million), and ABCP investments of nil (November 30, 2009 – \$25.0 million).

Investment Management's available for sale investment in Canadian government debt is a fixed-rate treasury bond with a maturity date within one year and a credit rating of AAA.

During the three and six months ended May 31, 2010 and 2009, no impairment charges were required.

- (b) The Company holds a 30.5% investment in S&WHL accounted for using the equity method. At May 31, 2010, the carrying value was \$74.1 million (November 30, 2009 – \$90.4 million). During the three and six months ended May 31, 2010, the Company recognized \$3.3 million in losses and \$1.6 million in losses (2009 – \$2.3 million in earnings and \$3.3 million in earnings). During the three and six months ended May 31, 2010, the Company received \$4.0 million and \$4.0 million in dividends (2009 – nil and \$1.0 million) from S&WHL. The decrease in the carrying value of the investment in S&WHL during the three months ended May 31, 2010, is in part due to the strength of the Canadian dollar relative to the U.K. pound. During the three months ended May 31, 2010, S&WHL also recorded a goodwill impairment charge related to one of its subsidiaries and a one-time accounting charge for investment team recruitment agreements.

### Note 3: Securitization of AGF Trust Loans

On March 30, 2007, AGF Trust securitized \$263.6 million of RSP loans. Cash flows of \$252.9 million were received on the securitization and a gain of \$8.0 million was recorded, net of transaction fees of \$0.1 million. As at May 31, 2010, \$85.7 million (November 30, 2009 – \$108.3 million) of securitized loans were outstanding.

When RSP loan receivables are sold in securitization to a securitization trust under terms that transfer control to third parties, the transaction is recognized as a sale and the related loan assets are removed from the Consolidated Balance Sheet. As part of the securitization, certain financial assets are retained. The retained interests are carried at fair value and are determined using the present value of future expected cash flows. A gain or loss on the sale of loan receivables is recognized immediately in income. The amount of the gain or loss is determined by estimating the fair value of future expected cash flows using management's best estimates of key assumptions: excess spread, discount rate on the interest-only strip, expected credit losses, prepayment rates and the expected weighted average life of RSP loans that are commensurate with the risks involved. The current fair value of retained interests is determined using the present value of future expected cash flows as

discussed above. During the three and six months ended May 31, 2010, a \$0.3 million and \$0.6 million writedown was booked as an other-than-temporary impairment (2009 – \$0.3 million and \$2.8 million).

The Company has recorded retained interests of \$39.5 million (November 30, 2009 – \$40.4 million) made up of i) the rights to future excess interest on these RSP loans after investors in the securitization trust have received the return for which they contracted, valued at \$4.2 million (November 30, 2009 – \$6.0 million), ii) cash collateral of \$13.2 million (November 30, 2009 – \$12.8 million) and iii) over-collateralization of \$22.1 million (November 30, 2009 – \$21.6 million).

As at May 31, 2010, the impaired loans included in the securitized balances were equal to \$0.1 million (November 30, 2009 – \$0.2 million), and during the three and six months ended May 31, 2010, \$0.4 million and \$0.9 million of securitized RSP loans were written off (2009 – \$0.8 million and \$1.5 million).

The Company's claim on the retained interests is subordinate to investors' interests. Recourse available to investors and the securitization trust are limited to the retained interests. For the three and six months ended May 31, 2010, cash flows of \$1.1 million and \$2.4 million (2009 – \$1.3 million and \$2.9 million) related to the interest-only strip were received on the securitized loans. The total income recognized from securitization, net of securitization writedown, during the three and six months ended May 31, 2010, was \$0.5 million and \$0.9 million (2009 – \$0.6 million income and \$1.0 million loss).

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

	May 31, 2010	November 30, 2009
Excess spread	4.8% - 4.9%	4.7% - 4.9%
Discount rate on interest-only strip	7.5%	7.5%
Expected credit losses	1.7% - 2.0%	1.7% - 2.0%
Prepayment rate	16.3% - 18.3%	16.3% - 18.3%
Expected weighted average life of RSP loans	1.7 years	1.8 years

AGF Trust retained servicing responsibilities for the securitized loans. A servicing liability of \$0.4 million was recorded as at May 31, 2010 (November 30, 2009 – \$0.6 million). This amount represents the estimated future cost of servicing the securitized loans. The amount amortized related to the servicing liability during the three and six months ended May 31, 2010 was \$0.1 million and \$0.2 million (2009 – \$0.1 million and \$0.3 million)

The following table presents key economic assumptions and the sensitivity of the current fair value of retained interests to two adverse changes in each key assumption as at May 31, 2010 and November 30, 2009. Since the sensitivity is hypothetical, it should be used with caution. The effect of changes in the fair value of retained interests was calculated using a discounted cash flow analysis.

(\$ thousands)	Impact on fair value of retained interests	
	May 31, 2010	November 30, 2009
Discount rate		
+10%	\$ (21)	\$ (37)
+20%	(41)	(73)
Prepayment rate		
+10%	\$ (24)	\$ (54)
+20%	(42)	(110)
Expected credit losses		
+10%	\$ (251)	\$ (331)
+20%	(502)	(663)
Excess spread		
-10%	\$ (446)	\$ (650)
-20%	(868)	(1,297)

**Note 4: Discontinued Operations**

On April 30, 2007, AGF sold 100% of Investmaster for \$6.8 million, recognizing a gain on the sale of \$4.7 million. The purchase consideration included \$5.0 million in cash and two notes receivable totalling £0.8 million or \$1.8 million at the time of sale from the buyer. On April 30, 2009, AGF received a payment of £0.4 million or \$0.7 million related to the first note receivable. On April 30, 2010, AGF received a payment of £0.4 million or \$0.6 million related to the second note receivable. No additional contingent consideration is receivable by AGF.

**Note 5: Acquisition of Highstreet Partners Ltd.**

On December 1, 2006, AGF acquired 79.9% of Highstreet Partners Limited (Highstreet). The purchase consideration was payable in a combination of cash and the issue of Class B Non-Voting shares. On March 2, 2009, a final payment, excluding contingent consideration, of \$21.5 million was paid, consisting of \$20.0 million in cash and the issuance of 188,444 Class B Non-Voting shares valued at \$1.5 million. The total consideration paid, including acquisition costs and imputed interest, was \$65.4 million in cash and the issuance of 629,443 Class B Non-Voting shares valued at \$12.3 million. During the year ended November 30, 2009, contingent consideration, based on certain financial profitability targets being achieved by Highstreet, of \$0.7 million was recorded as an increase in goodwill. This amount was paid on March 3, 2010.

**Note 6: AGF Trust**

AGF Trust's principal business activities are originating real estate secured loans and investment loans and deposit taking. Details relating to these activities are as follows:

(\$ thousands)	Term to contractual repricing			May 31, 2010	November 30, 2009
	Variable rate	1 year or less	1 to 5 years		
Mortgage loans	\$ 1,182	\$ 367,055	\$ 560,063	\$ 928,300	\$ 1,067,282
Home equity lines of credit (HELOC)	321,776	–	–	321,776	384,774
Total real estate secured loans	322,958	367,055	560,063	1,250,076	1,452,056
Investment loans	2,127,991	1,995	1,319	2,131,305	2,177,436
Total loans	2,450,949	369,050	561,382	3,381,381	3,629,492
Less: allowance for loan losses				(34,860)	(39,818)
Add: net deferred sales commissions and commitment fees				3,502	5,081
				3,350,023	3,594,755
Less: current portion				(499,905)	(537,683)
				\$ 2,850,118	\$ 3,057,072

**(a) Real Estate Secured and Investment Loans**

The table represents the period of contractual repricing of interest rates on outstanding amounts. Principal repayments due on real estate and investment loans due within one year as at May 31, 2010 were \$499.9 million (November 30, 2009 – \$537.7 million).

As at May 31, 2010, AGF Trust's mortgage portfolio comprises a combination of fixed rate and variable rate residential mortgages with a weighted average term to repricing of 1.7 years (November 30, 2009 – 1.8 years) and a weighted average yield of 6.4% (November 30, 2009 – 6.6%). Insured mortgage loans, excluding loan loss allowance, deferred commissions and pending representation, were \$446.0 million as at May 31, 2010 (November 30, 2009 – \$501.3 million). HELOCs, which totalled \$321.8 million as at May 31, 2010, had an average interest rate of 4.2% (November 30, 2009 – 4.2%). Investment loans, excluding RSP loans, totalled \$1.7 billion as at May 31, 2010, and had an average interest rate (based on the prime interest rate) of 4.0% (November 30, 2009 – 4.0%). RSP loans totalled \$432.2 million as at May 31, 2010, and had an average interest rate of 5.4% (November 30, 2009 – 5.3%). The average interest rate on all investment loans as at May 31, 2010, was 4.3% (November 30, 2009 – 4.3%). Mortgage and HELOC loans are secured primarily by residential real estate. Secured investment loans of \$1.7 billion (November 30, 2009 – \$1.7 billion) are secured primarily by the investment made using the initial loan proceeds. The market value of this investment loan collateral is approximately \$1.4 billion (November 30, 2009 – \$1.4 billion).

**(b) Loans by Province and by Type**

The following tables are a breakdown of the total value and total number of loans by province and by type:

(\$ millions)	Insured Mortgage Loans	Conventional Mortgage Loans	Secured Investment Loans	RSP Loans	HELOC Receivables	Finance Loans	Total
<b>May 31, 2010</b>							
British Columbia	\$ 10.7	\$ 26.8	\$ 319.0	\$ 39.4	\$ 27.5	\$ 0.2	423.6
Alberta	56.4	125.6	200.5	44.3	240.3	0.8	667.9
Ontario	259.7	213.7	826.6	138.8	21.0	0.5	1,460.3
Quebec	119.2	116.2	124.5	172.0	0.2	0.8	532.9
Other	–	–	225.2	37.7	32.8	1.0	296.7
Total value of loans	\$ 446.0	\$ 482.3	\$ 1,695.8	\$ 432.2	\$ 321.8	\$ 3.3	3,381.4

(\$ millions)	Insured Mortgage Loans	Conventional Mortgage Loans	Secured Investment Loans	RSP Loans	HELOC Receivables	Finance Loans	Total
<b>May 31, 2010</b>							
British Columbia	55	112	4,724	3,992	127	103	9,113
Alberta	254	604	3,502	3,420	1,024	440	9,244
Ontario	1,710	1,280	13,237	13,972	134	236	30,569
Quebec	695	795	2,309	16,185	4	390	20,378
Other	–	–	3,287	3,130	232	624	7,273
Total number of loans	2,714	2,791	27,059	40,699	1,521	1,793	76,577

(\$ millions)	Insured Mortgage Loans	Conventional Mortgage Loans	Secured Investment Loans	RSP Loans	HELOC Receivables	Finance Loans	Total
<b>November 30, 2009</b>							
British Columbia	\$ 9.9	\$ 33.8	\$ 326.9	\$ 40.2	\$ 37.5	\$ 0.2	448.5
Alberta	59.5	147.9	208.3	43.7	280.6	1.4	741.4
Ontario	299.7	246.9	848.0	143.3	28.4	0.8	1,567.1
Quebec	132.2	137.4	127.6	166.6	0.2	1.2	565.2
Other	–	–	230.7	37.0	38.1	1.5	307.3
Total value of loans	\$ 501.3	\$ 566.0	\$ 1,741.5	\$ 430.8	\$ 384.8	\$ 5.1	3,629.5

(\$ millions)	Insured Mortgage Loans	Conventional Mortgage Loans	Secured Investment Loans	RSP Loans	HELOC Receivables	Finance Loans	Total
<b>November 30, 2009</b>							
British Columbia	58	141	4,830	4,637	170	148	9,984
Alberta	269	709	3,613	3,867	1,213	649	10,320
Ontario	1,964	1,505	13,551	16,946	168	336	34,470
Quebec	750	935	2,354	16,374	4	552	20,969
Other	–	–	3,350	3,419	265	837	7,871
Total number of loans	3,041	3,290	27,698	45,243	1,820	2,522	83,614

**(c) Impaired Loans**

Loans are considered to be past due where repayment of principal or interest is contractually in arrears. Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest, or when principal or interest is 90 days past due, except where the loan is both well-secured and in the process of collection. Loans that are insured by the federal government, an agency thereof, or a third-party insurer are classified as impaired when interest or principal is past due 365 days. As at May 31, 2010, impaired loans were \$45.3 million (November 30, 2009 – \$48.9 million) and \$33.6 million (November 30, 2009 – \$33.8 million), net of the specific allowance for loan losses.

Notes to Consolidated Financial Statements

(\$ thousands)	May 31, 2010	November 30, 2009
Impaired Loans:		
Insured mortgage loans	\$ 6,419	\$ 7,002
Conventional mortgage loans	32,293	35,523
Secured investment loans	1,984	1,619
RSP loans	2,285	3,840
HELOC receivables	2,291	931
	\$ 45,272	\$ 48,915

The following tables provide an aging of loans:

(\$ thousands)							
May 31, 2010	Current	1 to 29 days	30 to 60 days	61 to 90 days	Over 90 days	Total	
Insured mortgage loans	\$ 388,891	\$ 24,240	\$ 4,252	\$ 3,230	\$ 25,415	\$ 446,028	
Conventional mortgage loans	414,472	22,580	8,583	4,344	32,293	482,272	
Secured investment loans	1,680,452	9,731	2,377	1,510	1,727	1,695,797	
RSP loans	424,514	3,643	2,145	664	1,227	432,193	
HELOC receivables	316,498	1,679	1,219	–	2,380	321,776	
Finance loans	3,315	–	–	–	–	3,315	
	\$ 3,228,142	\$ 61,873	\$ 18,576	\$ 9,748	\$ 63,042	\$ 3,381,381	

(\$ thousands)							
November 30, 2009	Current	1 to 29 days	30 to 60 days	61 to 90 days	Over 90 days	Total	
Insured mortgage loans	\$ 436,177	\$ 28,504	\$ 6,521	\$ 3,204	\$ 26,853	\$ 501,259	
Conventional mortgage loans	479,042	33,173	12,112	6,151	35,545	566,023	
Secured investment loans	1,722,616	12,713	3,550	1,011	1,619	1,741,509	
RSP loans	420,096	6,023	1,785	1,329	1,560	430,793	
HELOC receivables	377,865	5,398	147	403	961	384,774	
Finance loans	5,134	–	–	–	–	5,134	
	\$ 3,440,930	\$ 85,811	\$ 24,115	\$ 12,098	\$ 66,538	\$ 3,629,492	

(d) Mortgages in Legal Action

The following table provides a summary of conventional mortgages in legal action, which includes demand for payment, power of sale and foreclosures. The table details opening mortgages in legal action for the period and related changes to the pool, being additions, discharged mortgages other than sold, proceeds on foreclosed mortgages discharged and related losses, to arrive at the ending balance of mortgages in legal action.

Six months ended May 31, (\$ thousands)	2010	2009
Balance outstanding, beginning of the period	\$ 50,513	\$ 44,987
Additions	19,952	27,058
Discharged mortgages other than sold	(14,567)	(11,425)
Proceeds on foreclosed mortgages discharged	(12,878)	(9,518)
Loss on foreclosed mortgages discharged	(1,601)	(1,049)
	\$ 41,419	\$ 50,053

In addition, as at May 31, 2010, there are \$30.7 million (2009 – \$32.6 million) of insured mortgages in legal action.

**(e) Allowance for Credit Losses**

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

<b>Six months ended May 31, 2010</b> (\$ thousands)	<b>Specific allowances</b>	<b>General allowances</b>	<b>Total allowances</b>
Balance, beginning of period	\$ 15,064	\$ 24,754	\$ 39,818
Amounts written off	(14,641)	–	(14,641)
Recoveries	920	–	920
Provision for loan losses	10,399	(1,636)	8,763
	\$ 11,742	\$ 23,118	\$ 34,860
<b>Breakdown by category as at May 31, 2010</b>			
Insured mortgage loans	\$ –	\$ 3,900	\$ 3,900
Conventional mortgage loans	5,175	4,490	9,665
Secured investment loans	2,490	4,248	6,738
RSP Loans	3,787	9,716	13,503
HELOC receivables	290	764	1,054
	\$ 11,742	\$ 23,118	\$ 34,860
<b>Six months ended May 31, 2009</b> (\$ thousands)	<b>Specific allowances</b>	<b>General allowances</b>	<b>Total allowances</b>
Balance, beginning of period	\$ 14,163	\$ 22,967	\$ 37,130
Amounts written off	(15,020)	–	(15,020)
Recoveries	747	–	747
Provision for loan losses	23,216	3,137	26,353
	\$ 23,106	\$ 26,104	\$ 49,210
<b>Breakdown by category as at May 31, 2009</b>			
Insured mortgage loans	\$ –	\$ –	\$ –
Conventional mortgage loans	6,359	7,453	13,812
Secured investment loans	3,690	6,884	10,574
RSP Loans	12,995	10,427	23,422
HELOC receivables	62	1,340	1,402
	\$ 23,106	\$ 26,104	\$ 49,210

**(f) AGF Trust Deposits**

(\$ thousands)	<b>Term to Maturity</b>				
	<b>Demand</b>	<b>1 year or less</b>	<b>1 to 5 years</b>	<b>May 31, 2010</b>	<b>November 30, 2009</b>
Deposits	\$ 3,517	\$ 1,653,231	\$ 2,019,945	\$ 3,676,693	\$ 3,929,860
Less: deferred selling commissions				(11,052)	(11,297)
Less: current portion				(1,656,748)	(1,884,235)
Long-term deposits				\$ 2,008,893	\$ 2,034,328

As at May 31, 2010, deposits were substantially comprised of GICs with a weighted average term to maturity of 1.5 years (November 30, 2009 – 1.4 years) and a weighted average interest rate of 3.36% (November 30, 2009 – 3.60%). Approximately 10.4% (November 30, 2009 – 15.3%) of deposits mature within 90 days.

**(g) Interest Rate Swaps**

To hedge its exposure to fluctuating interest rates, AGF Trust has entered into interest rate swap transactions with four Canadian chartered banks, as noted below. The swap transactions expire between June 2010 and March 2015. They involve the exchange of either the one-month bankers' acceptance (BA) rate or the three-month BA rate to receive fixed interest rates. The swap contracts designated as fair value hedging instruments for deposits are used by AGF Trust for balance sheet matching purposes and to mitigate net interest revenue volatility. As at May 31, 2010, the aggregate notional amount of the swap transactions was \$2.4 billion (November 30, 2009 – \$2.3 billion). The aggregate fair value of the swap transactions, which represents the amount that would be received by AGF Trust if the transactions were terminated at May 31, 2010, was \$20.0 million (November 30, 2009 – \$55.7 million). During the three and six months ended May 31, 2010, the ineffective portion of accumulated changes in fair value of hedging relationships recognized in the Consolidated Statement of Income amounted to a loss of \$0.6 million and \$1.0 million (2009 – \$0.4 million loss and \$0.1 million loss), as it relates to fair value hedging relationships.

(\$ thousands) May 31, 2010	Notional amount of swap	Fair value	Maturity date	Fixed interest rate received
	\$ 710,000	\$ 4,074	2010	0.57% - 5.05%
	1,020,000	12,085	2011	0.61% - 5.08%
	485,000	4,989	2012	1.26% - 5.01%
	145,000	(803)	2013	1.86% - 2.71%
	40,000	(257)	2014	2.22% - 2.82%
	25,000	(114)	2015	2.82% - 2.93%
	\$ 2,425,000	\$ 19,975		

(\$ thousands) November 30, 2009	Notional amount of swap	Fair value	Maturity date	Fixed interest rate received
	\$ 230,000	\$ 209	2009	0.70% - 4.22%
	985,000	17,545	2010	0.71% - 5.05%
	695,000	24,952	2011	0.85% - 5.08%
	305,000	11,687	2012	1.60% - 5.01%
	35,000	686	2013	2.37% - 2.71%
	30,000	573	2014	2.70% - 2.82%
	\$ 2,280,000	\$ 55,652		

**Note 7: Other Assets**

(\$ thousands)	May 31, 2010	November 30, 2009
Long-term portion of derivatives used to manage interest rate exposure	\$ 11,443	\$ 40,637
Other	3,666	3,321
	\$ 15,109	\$ 43,958

The current portion of derivatives used to manage interest rate exposure is included under accounts receivable, prepaid expenses and other assets. As at May 31, 2010, the current portion was \$8.5 million (November 30, 2009 – \$15.0 million). Refer to Note 6(g) for details on the derivatives used to manage interest rate exposure. Refer to Note 15 for further details of the Company's derivative instruments.

**Note 8: Long-term Debt**

(\$ thousands)	May 31, 2010	November 30, 2009
Revolving term loan	\$ 162,201	\$ 156,731
Less: current portion	40,625	13,083
	\$ 121,576	\$ 143,648

The Company has arranged a three-year, prime-rate-based revolving term loan to a maximum of \$300.0 million (November 30, 2009 – \$300.0 million) with a Canadian chartered bank. Under the loan agreement, AGF is permitted to draw

down the revolving term loan by direct advances and/or BAs. The revolving term loan is available at any time for a period of 364 days from commencement of the loan (the commitment period). The expiration of the current commitment period is July 31, 2010. However, AGF may request within 75 to 90 days prior to the end of the commitment period a recommencement of the three-year term at the expiry of the then-current commitment period. Without recommencement, the loan shall be automatically converted to a term loan facility having a term of two years. The loan balance shall be repaid over a period of two years in minimum quarterly installments of one-twelfth of the amount of principal outstanding, with the balance payable at the end of the term. As at May 31, 2010, AGF had drawn \$162.2 million (November 30, 2009 – \$156.7 million) against the facility in the form of 14- to 30-day BAs at an effective average interest rate of 2.3% (November 30, 2009 – 2.1%) per annum.

Security for the bank loans includes a specific claim over the management fees owing from the mutual funds (subject to the existing claims of related limited partnerships) for which AGF acts as manager and a pledge of assets by AGF Management Limited and certain subsidiaries, including AGF Investments Inc. and 20/20 Financial Corporation.

## Note 9: Other Long-term Liabilities

(\$ thousands)	May 31, 2010	November 30, 2009
Long-term portion of derivative used to manage changes in share-based compensation	\$ –	\$ 1,498
Long-term compensation-related liabilities	12,285	11,637
Long-term portion of Elements Advantage	3,153	3,487
Other	38	53
	\$ 15,476	\$ 16,675

The current portion of the derivative used to manage changes in share-based compensation is included under accounts payable and accrued liabilities. As at May 31, 2010, the current portion was \$2.8 million (November 30, 2009 – \$2.4 million). The notional amount of the derivative used to manage share-based compensation is \$6.2 million or 215,003 share units and matures in 2010. Refer to Note 15 for further details on the Company's derivative instruments.

The Elements Advantage Commitment is a commitment to investors that if their portfolio does not match or outperform its customized benchmark over a three-year period, AGF will provide each individual investor up to 90 basis points in additional units. This is calculated based on the value of such investment at the end of its related three-year period. As of June 22, 2009, the Company discontinued the Elements Advantage feature on its Elements products. Eligible units purchased prior to June 22, 2009, have been grandfathered and will retain the Elements Advantage feature. Refer to Note 1 of AGF's 2009 Annual Report for further details on the Elements Advantage Commitment. The current portion of the Elements Advantage liability is included under accounts payable and accrued liabilities. As at May 31, 2010, the current portion was \$3.6 million (November 30, 2009 – \$5.3 million).

## Note 10: Capital Stock

### (a) Authorized Capital

The authorized capital of AGF consists of an unlimited number of AGF Class B Non-Voting shares and an unlimited number of AGF Class A Voting common shares. The Class B Non-Voting shares are listed for trading on the Toronto Stock Exchange (TSX).

### (b) Changes During the Period

The change in capital stock is summarized as follows:

Six months ended May 31, (\$ thousands, except share amounts)	2010		2009	
	Shares	Stated value	Shares	Stated value
<b>Class A Voting common shares</b>	57,600	\$ –	57,600	\$ –
<b>Class B Non-Voting shares</b>				
Balance, beginning of period	89,097,400	\$ 438,612	88,480,104	\$ 431,897
Issued through stock dividend plan	74,497	1,315	153,670	1,381
Stock options exercised	138,350	1,678	–	–
Issued on acquisition of Highstreet Partners Limited (note 5)	–	–	188,444	1,536
Balance, end of period	89,310,247	\$ 441,605	88,822,218	\$ 434,814



**(c) Class B Non-Voting Shares Purchased for Cancellation**

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B Non-Voting shares through the facilities of the TSX (or as otherwise permitted by the TSX). Under its normal course issuer bid, AGF may purchase up to 10% of the public float outstanding on the date of the receipt of regulatory approval or up to 7,167,620 shares through to February 25, 2011. No shares were repurchased during the three and six months ended May 31, 2010 and 2009.

**(d) Stock Option Plan**

AGF has established stock option plans for senior employees under which stock options to purchase an aggregate maximum of 4,724,551 Class B Non-Voting shares could have been granted as at May 31, 2010 (2009 – 4,581,801). The stock options are issued at a price not less than the market price of the Class B Non-Voting shares immediately prior to the grant date. Stock options are vested to the extent of 25% to 33% of the individual's entitlement per annum, or in some instances, vest at the end of the term of the option.

The change in stock options during the six months ended May 31, 2010 and 2009 is summarized as follows:

Six months ended May 31,	2010		2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Class B Non-Voting share options				
Balance, beginning of period	6,627,398	\$ 16.34	6,576,948	\$ 16.59
Options granted	75,000	16.20	–	–
Options forfeited/expired	(945,499)	17.65	(487,799)	20.58
Options exercised	(138,350)	10.68	–	–
Balance, end of period	5,618,549	\$ 16.26	6,089,149	\$ 16.27

During the three months ended May 31, 2010 and 2009, no stock options were granted (2009 – nil) and compensation expense and contributed surplus of \$0.8 million (2009 – \$0.8 million) were recorded.

During the six months ended May 31, 2010 and 2009, 75,000 stock options were granted (2009 – nil) and compensation expense and contributed surplus of \$1.6 million (2009 – \$1.7 million) were recorded.

The fair value of options granted during the six months ended May 31, 2010, has been estimated at \$3.60 per share using the Black-Scholes option-pricing model. The following assumptions were used to determine the fair value of the options granted during the six months ended May 31, 2010.

Risk-free interest rate	3.03%
Expected dividend yield	6.42%
Expected share price volatility	41.66%
Option term	5 years

**(e) Restricted Share Unit (RSU) and Performance Share Unit (PSU) Plans**

The change in share units during the six months ended May 31, 2010 and 2009 is as follows:

Six months ended May 31,	2010	2009
	Number of share units	Number of share units
Outstanding, beginning of period		
Non-vested	685,862	680,889
Issued		
Initial allocation	12,122	–
In lieu of dividends	20,478	35,339
Settled in cash	(1,715)	(4,332)
Forfeited and cancelled	(24,146)	(36,381)
Outstanding, end of period	692,601	675,515

Compensation expense for the three months ended May 31, 2010 related to these share units was \$0.9 million (2009 – \$0.4 million), and for the six months ended May 31, 2009, was \$1.9 million (2009 – \$0.8 million). AGF has entered into a swap agreement to fix the cost of compensation related to certain RSUs and PSUs. As at May 31, 2010, AGF has economically hedged 145,768 (2009 – 171,607) share units at a fixed cost of \$28.87 (2009 – \$30.72). Refer to Note 15 for further details on the Company's derivative instruments.

**(f) Deferred Share Unit (DSU) Plans**

There is no unrecognized compensation expense related to directors' DSUs since these awards vest immediately upon grant. As at May 31, 2010, 49,217 (2009 – 39,254) DSUs were outstanding. Compensation expense related to these DSUs for the three months ended May 31, 2010 was \$0.1 million (2009 – \$0.2 million), and for the six months ending May 31, 2010 was \$0.1 million (2009 - \$0.3 million).

**(g) Earnings Per Share**

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

(\$ thousands, except per share amounts)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
<b>Numerator</b>				
Net income for the period	\$ 27,429	\$ 17,256	\$ 58,068	\$ 29,408
<b>Denominator</b>				
Weighted average number of shares – basic	89,332,374	88,826,605	89,272,840	88,696,825
Dilutive effect of employee stock options	1,150,094	407,410	1,132,360	198,179
Weighted average number of shares – diluted	90,482,468	89,234,015	90,405,200	88,895,004
<b>Earnings per share</b>				
Basic	\$ 0.31	\$ 0.19	\$ 0.65	\$ 0.33
Diluted	\$ 0.30	\$ 0.19	\$ 0.64	\$ 0.33

**Note 11: Accumulated Other Comprehensive Income**

(\$ thousands)	Foreign currency translation	Available for sale securities	Cash flow hedge	Total
<b>Opening Balance</b>				
Other comprehensive income (loss)	\$ (18,998)	\$ (1,489)	\$ (449)	\$ (20,936)
Income tax expense (recovery)	2,851	141	152	3,144
<b>Balance, November 30, 2008</b>	(16,147)	(1,348)	(297)	(17,792)
<b>Transactions during the year ended November 30, 2009</b>				
Other comprehensive income (loss)	(8,608)	15,306	323	7,021
Income tax expense (recovery)	1,248	(3,608)	(105)	(2,465)
<b>Balance, November 30, 2009</b>	(23,507)	10,350	(79)	(13,236)
<b>Transactions during the six months ended May 31, 2010</b>				
Other comprehensive income (loss)	(10,978)	762	106	(10,110)
Income tax expense (recovery)	1,372	(208)	(34)	1,130
<b>Balance, May 31, 2010</b>	\$ (33,113)	\$ 10,904	\$ (7)	\$ (22,216)

**Note 12: Supplemental Disclosure of Cash Flow Information****(a) Changes in Non-Cash Operating Working Capital Items**

(\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
(Increase) decrease in accounts receivable	\$ 5,317	\$ (29,972)	\$ 10,167	\$ (15,370)
(Increase) decrease in other assets	(4,298)	19,149	(6,839)	21,724
Increase (decrease) in accounts payable and accrued liabilities	3,555	18,579	(45,774)	(40,327)
Increase (decrease) in deposits and other liabilities	(9,544)	(440)	(13,017)	556
	\$ (4,970)	\$ 7,316	\$ (55,463)	\$ (33,417)

**(b) Income Taxes and Interest Paid**

(\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
Income taxes paid	\$ 14,904	\$ 9,894	\$ 42,416	\$ 37,799
Interest paid	19,593	28,067	40,210	63,446
	\$ 34,497	\$ 37,961	\$ 82,626	\$ 101,245

**Note 13: AGF Trust Net Interest Income**

The breakdown of net interest income is as follows:

(\$ thousands)	Three months ended May 31,		Six months ended May 31,	
	2010	2009	2010	2009
AGF Trust interest income				
Loan interest	\$ 42,082	\$ 53,901	\$ 84,983	\$ 114,871
Investment interest	3,546	4,679	6,516	10,448
	45,628	58,580	91,499	125,319
AGF Trust interest expense				
Deposit interest	32,850	46,575	66,767	94,864
Hedging interest income	(14,380)	(19,895)	(28,829)	(34,061)
Other interest expense	4,701	6,223	9,546	12,326
	23,171	32,903	47,484	73,129
AGF Trust net interest income	\$ 22,457	\$ 25,677	\$ 44,015	\$ 52,190

**Note 14: Capital Management**

Detailed disclosure of the Company's capital, including management objectives and policies and regulatory capital requirements, are included in Note 21 to AGF's 2009 Annual Report. Our Investment Management businesses, in general, are not subject to significant regulatory capital requirements in each of the jurisdictions in which they are registered and operate. The cumulative amount of minimum regulatory capital across all of our Investment Management operations is approximately \$6.0 million.

Regulatory capital for AGF Trust is detailed as follows:

(\$ thousands, except for risk-weighted assets in \$ millions)	Basel II	
	May 31, 2010	November 30, 2009
<b>Risk-weighted assets<sup>1</sup></b>		
Credit risk	\$ 1,670.4	\$ 1,754.8
Operational risk	226.4	216.6
Total risk-weighted assets	1,896.8	1,971.4
<b>Tier 1 capital</b>		
Common shares	\$ 82,768	\$ 82,768
Contributed surplus	1,629	1,476
Retained earnings	135,161	120,646
Non-cumulative preferred shares	64,000	64,000
Less: securitization and other	(10,435)	(11,378)
	273,123	257,512
<b>Tier 2 capital</b>		
Subordinated debentures	109,500	109,500
General allowances	14,616	15,355
Less: securitization and other	(6,415)	(6,902)
	117,701	117,953
<b>Total capital</b>	<b>\$ 390,824</b>	<b>\$ 375,465</b>

<sup>1</sup> For operational risk, AGF Trust uses the Basic Indicator Approach - calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.

**Note 15: Financial Instruments**

Financial instruments are classified based on categories according to CICA Handbook "Section 3855 Financial Instruments – Recognition and Measurement" as follows:

(\$ thousands)	Carrying amount on balance sheet		
	Fair value		Amortized cost
	Available for Sale	Held for Trading	Loans and Receivables or Other Financial Liabilities
<b>As at May 31, 2010</b>			
Cash and cash equivalents	\$ –	\$ 291,083	\$ –
Investments	550,940	–	–
Retained interest from securitization	39,482	–	–
Accounts receivable	–	–	75,589
Real estate secured and investment loans	–	–	3,350,023
Derivatives	–	19,975	–
Other assets	–	–	3,666
<b>Total financial assets</b>	<b>\$ 590,422</b>	<b>\$ 311,058</b>	<b>\$ 3,429,278</b>
Accounts payable and accrued liabilities	\$ –	\$ –	\$ 237,583
Long-term debt	–	–	162,201
Deposits	–	–	3,665,641
Derivatives	–	2,766	–
Other long-term liabilities	–	–	15,476
<b>Total financial liabilities</b>	<b>\$ –</b>	<b>\$ 2,766</b>	<b>\$ 4,080,901</b>

(\$ thousands)	Carrying amount on balance sheet		
	Fair value		Amortized cost
	Available for Sale	Held for Trading	Loans and Receivables or Other Financial Liabilities
<b>As at November 30, 2009</b>			
Cash and cash equivalents	\$ –	\$ 274,870	\$ –
Investments	550,480	–	–
Retained interest from securitization	40,448	–	–
Accounts receivable	–	–	80,968
Real estate secured and investment loans	–	–	3,594,755
Derivatives	–	55,652	–
Other assets	–	–	3,321
<b>Total financial assets</b>	<b>\$ 590,928</b>	<b>\$ 330,522</b>	<b>\$ 3,679,044</b>
Accounts payable and accrued liabilities	\$ –	\$ –	\$ 281,641
Long-term debt	–	–	156,731
Deposits	–	–	3,918,563
Derivatives	–	3,900	–
Other long-term liabilities	–	–	15,177
<b>Total financial liabilities</b>	<b>\$ –</b>	<b>\$ 3,900</b>	<b>\$ 4,372,112</b>

## Fair value hierarchy

### Financial Instruments Carried at Fair Value

The financial instruments carried at fair value have been categorized under three levels of fair value hierarchy as follows:

#### Quoted Prices in an Active Market (Level 1)

This level of the hierarchy includes listed equity securities on major exchanges, investments in AGF mutual funds, highly liquid temporary deposits with Canadian and Irish Banks, as well as term deposits and bank deposit notes. The fair value of instruments that are quoted in active markets are determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place.

#### Valuation Techniques with Observable Parameters (Level 2)

This level of the hierarchy includes derivative instruments with major Canadian chartered banks, as well as investments held by AGF Trust which include commercial paper, bank-sponsored ABCP and FRNs. These instruments are recorded at fair value on the settlement date. AGF Trust values its investment holdings primarily using counterparty mark to markets provided by the major financial institutions or investment brokerages with which it deals.

The fair value of derivatives used to manage interest rate exposure is calculated through discounting future expected cash flows using the BA-based swap curve. Since the BA-based swap curve is an observable input, these financial instruments are considered Level 2.

The fair value of the derivative used to manage changes in share-based compensation is calculated as the difference between the initial swap price and the market value of Class B Non-Voting shares on the valuation date, multiplied by the total number of shares outstanding. The initial price is equal to the price agreed to at the onset of the swap agreement, adjusted for dividends that have been reinvested by the equity holder. Since the market value of Class B Non-Voting shares is an observable input, this financial instrument is considered Level 2.

#### Valuation Techniques with Significant Unobservable Parameters (Level 3)

This level of the hierarchy includes the retained interest from securitization. Instruments classified in this category have a parameter input or inputs which are unobservable and which have a more than insignificant impact on either the fair value of the instrument or the profit or loss of the instrument. The fair value of the retained interest from securitization is determined using the present value of future expected cash flows. The expected cash flow model incorporates expected credit losses, prepayment rates, discount rate and excess spread. Expected credit losses and prepayment rates are primarily based on historical portfolio performance, while discount rate and excess spread are based on portfolio performance combined with management's assessment of the impact of market and economic factors on expected cash flows.

The following table classifies the carrying value of the financial instruments held at fair value across the fair value hierarchy:

(\$ thousands) May 31, 2010	Financial instruments at fair value			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 291,083	\$ –	\$ –	\$ 291,083
Investments	20,585	530,355	–	550,940
Retained interest from securitization	–	–	39,482	39,482
Derivatives	–	19,975	–	19,975
Total financial assets	\$ 311,668	\$ 550,330	\$ 39,482	\$ 901,480
Derivatives	\$ –	\$ 2,766	\$ –	\$ 2,766
Total financial liabilities	\$ –	\$ 2,766	\$ –	\$ 2,766

  

(\$ thousands) November 30, 2009	Financial instruments at fair value			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 274,870	\$ –	\$ –	\$ 274,870
Investments	19,724	530,756	–	550,480
Retained interest from securitization	–	–	40,448	40,448
Derivatives	–	55,652	–	55,652
Total financial assets	\$ 294,594	\$ 586,408	\$ 40,448	\$ 921,450
Derivatives	\$ –	\$ 3,900	\$ –	\$ 3,900
Total financial liabilities	\$ –	\$ 3,900	\$ –	\$ 3,900

During the six months ended May 31, 2010, there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

The following is a reconciliation of Level 3 fair value measurements from November 30, 2009 to May 31, 2010:

(\$ thousands)	Fair value measurements using Level 3 inputs	
		Retained interest from securitization
Balance at November 30, 2009	\$	40,448
Accretion income		1,362
Cash receipts, net of writeoffs		(1,517)
Securitization write-down		(604)
Unrealized losses recognized in other comprehensive income		(207)
Balance at May 31, 2010	\$	39,482

### Financial Instruments not Carried at Fair Value

The following table presents the estimated fair value of the Company's financial instruments which are not carried at fair value in the balance sheet:

(\$ thousands)	May 31, 2010		November 30, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Accounts receivable	\$ 75,589	\$ 75,589	\$ 80,968	\$ 80,968
Real estate secured loans and investment loans	3,350,023	3,366,537	3,594,755	3,611,473
Other assets	3,666	3,666	3,321	3,321
Total financial assets	\$ 3,429,278	\$ 3,445,792	\$ 3,679,044	\$ 3,695,762
Accounts payable and accrued liabilities	\$ 237,583	\$ 237,583	\$ 281,641	\$ 281,641
Long-term debt	162,201	162,201	156,731	156,731
Deposits	3,665,641	3,698,316	3,918,563	3,963,517
Other long-term liabilities	15,476	15,476	15,177	15,177
Total financial liabilities	\$ 4,080,901	\$ 4,113,576	\$ 4,372,112	\$ 4,417,066

For accounts receivable, other assets, accounts payable and accrued liabilities, long-term debt and other long-term liabilities, the carrying amount represents a reasonable approximation of fair value.

Real estate secured loans, investment loans, RSP loans, HELOC receivables, and finance loans are classified as loans and receivables and are recorded at amortized cost using the effective interest method, net of any allowance for loan losses and related deferred fees and charges. The fair value of mortgage loans and deposits is calculated based on the discounted present value of future cash flows associated with the loans and deposits. The discount rates used reflect prevailing market rates for loans and deposits with similar residual terms to maturity and product characteristics. For all other loan types, the carrying value is considered to be a reasonable approximation of fair value due to the variable interest rate nature of the loan.

## Risk Management

In the normal course of business, the Company manages risks that arise as a result of its use of financial instruments. These risks include market, liquidity and credit risk.

### Market Risk

Market risk is the risk that the fair value of, or cash flows associated with, financial instruments will fluctuate due to changes in market factors. Market risk includes fair value risk, interest rate risk and foreign currency risk. The Company is exposed to these risks directly through its financial instruments.

### Fair Value Risk

Fair value risk is the risk of loss due to adverse changes in prices other than from change in interest rates and foreign currency. The Company is exposed to fair value risk on certain investments available for sale and certain derivative positions. The Company's investments that have fair value risk include mutual funds managed by the Company and common shares of \$20.1 million as at May 31, 2010 (2009 – \$25.1 million). Any unrealized gains or losses arising from changes in the fair value of these financial instruments available for sale are recorded in other comprehensive income. Based on the carrying value of these investments at May 31, 2010, the effect of a 10% decline or increase in the value of investments would result in a \$2.0 million (2009 – \$2.5 million) unrealized gain or loss to other comprehensive income.

Details of the Company's derivative instruments are as follows:

(\$ thousands) May 31, 2010	Interest rate	Maximum maturity date	Notional amount	Fair value
Derivatives used to manage interest rate exposure	0.57% - 5.08%	2015	2,425,000	19,975
Derivatives used to manage changes in share-based compensation	–	2010	6,206	(2,766)

  

(\$ thousands) November 30, 2009	Interest rate	Maximum maturity date	Notional amount	Fair value
Derivatives used to manage interest rate exposure	0.70% - 5.08%	2014	2,280,000	55,652
Derivatives used to manage changes in share-based compensation	–	2010	8,919	(3,900)

As at May 31, 2010, the effect of a 10% decline or increase in the value of the underlying reference asset of the derivatives used to manage changes in share-based compensation would result in a \$0.3 million (2009 – \$0.4 million) increase or decrease in income.

### Interest Rate Risk

Interest rate risk, inclusive of credit spread risk, is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; mortgage prepayment rates; changes in the market price of credit and the creditworthiness of a particular client.

The Company, through AGF Trust, is exposed to interest rate risk primarily through its cash and cash equivalents, investments available for sale, real estate secured and investment loans receivable and deposits, managed and supervised by AGF Trust's Asset and Liability Committee. AGF Trust employs a number of techniques to manage this risk, including the matching of asset and liability terms. AGF Trust also uses interest rate swaps to manage any residual mismatches. At May 31, 2010, a 1% increase in interest rates in the aforementioned financial instruments would result in an increase in annual net interest income of approximately \$3.4 million (2009 – \$5.1 million increase). As a result of current interest rate levels, a sensitivity analysis based on a 1% decrease would not provide meaningful information. Refer to Note 3 for the effect of changes to key assumptions on the fair value of retained interests.

The Company, excluding AGF Trust, is also exposed to interest rate risk through its floating-rate debt and cash balances. As at May 31, 2010, the effect of a 1% change in the variable interest rates on the average balances for the year would have resulted in an annualized change in interest expense of approximately \$1.6 million (2009 – \$1.5 million).



### Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to changes in spot and forward rates and the volatility of currency exchange rates. The Company is subject to foreign exchange risk on its integrated foreign subsidiaries in Ireland and Singapore, which provide investment advisory services. These subsidiaries retain minimal monetary exposure to the local currency, as the majority of revenues are earned in Canadian dollars and salaries and wages are primarily paid on a monthly basis and represent the majority of the local currency expenses. As such, these foreign subsidiaries have limited use of financial instruments denominated in local currencies, thus resulting in minimal foreign exchange risk.

### Liquidity Risk

Liquidity risk arises from the possibility that the Company cannot meet a demand for cash resources when required or meet its financial obligations.

The Company manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 10 and 14. In its Investment Management segment, the Company manages its liquidity by monitoring actual and projected cash flows to ensure that it has sufficient liquidity through cash received from operations as well as borrowings under its credit facility. The key liquidity requirements within this segment are the funding of commissions paid on mutual funds and dividends paid to shareholders. The Company is subject to certain financial loan covenants under its credit facility and has met all of these conditions.

AGF Trust manages liquidity risk through deposit taking activities and through the securitization of loans. The key liquidity requirements within this segment are the funding of mortgages and loans and the ability to pay out maturing GICs. AGF Trust's overall liquidity risk is managed by its treasury department and is supervised by AGF Trust's Asset and Liability Management Committee in accordance with the policies for management of assets and liabilities, liquidity and loan financing activities. These policies aim to ensure that AGF Trust has sufficient cash resources to meet its current and future financial obligations in the regular course of business and under a variety of conditions.

Management monitors cash resources daily to ensure that AGF Trust's liquidity measurements are within the limits established by policies. In addition, management meets regularly to assess the timing of cash inflows and outflows related to loan and deposit maturities, and to review various possible stress scenarios. AGF Trust aims to maintain a prudent reserve of unencumbered liquid assets that are readily available if required. It strives to maintain a stable volume of base deposits that originate from its deposit brokerage clientele.

The Company's internal audit department reviews the compliance of AGF Trust's liquidity policies. Internal audit reports are presented to the Audit Committee of the Trust Board for review.

The following table presents contractual terms to maturity of the financial liabilities owed by the Company:

(\$ thousands)				
<b>May 31, 2010</b>	<b>Demand</b>	<b>1 Year or Less</b>	<b>1 to 5 Years</b>	
Accounts payable and accrued liabilities	\$ –	\$ 240,349	\$ –	
Long-term debt	–	40,625	121,576	
Deposits <sup>1</sup>	3,517	1,679,731	2,175,183	
Other liabilities	–	–	15,476	
<b>Total</b>	<b>\$ 3,517</b>	<b>\$ 1,960,705</b>	<b>\$ 2,312,235</b>	

  

(\$ thousands)				
<b>November 30, 2009</b>	<b>Demand</b>	<b>1 Year or Less</b>	<b>1 to 5 Years</b>	
Accounts payable and accrued liabilities	\$ –	\$ 284,043	\$ –	
Long-term debt	–	13,083	143,648	
Deposits <sup>1</sup>	4,665	1,909,845	2,218,390	
Other liabilities	–	–	16,675	
<b>Total</b>	<b>\$ 4,665</b>	<b>\$ 2,206,971</b>	<b>\$ 2,378,713</b>	

<sup>1</sup> Excluding deferred commission.

## Credit Risk

Credit risk is the potential of financial loss arising from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. The Company's overall credit risk strategy and credit risk policy are developed by senior management and further refined at the business unit level, through the use of policies, processes and internal controls, designed to promote business activities while ensuring these activities are within the standards of risk tolerance levels. As at May 31, 2010, financial assets of \$3.4 billion, consisting of cash and cash equivalents, investments, retained interests from securitization, real estate secured loans and investment loans, accounts receivable and other assets, were exposed to credit risk up to the maximum of their respective carrying value.

Cash and cash equivalents consist primarily of highly liquid temporary deposits with Canadian and Irish banks, as well as commercial paper, bank-sponsored ABCP, bank deposit notes, reverse re-purchase agreements, BAs and FRNs.

Investments subject to credit risk consist primarily of FRNs, senior debt instruments, investments in mutual funds of AGF and other securities. For investing activities done through AGF Trust, policies have been established that identify the types and rating of debt investments in which AGF Trust can invest. These policies also restrict AGF Trust's transactions primarily to major chartered banks and recognized investment dealers who are members of the Investment Industry Regulatory Organization of Canada (IIROC). AGF Trust maintains a list of approved securities dealers and counterparties, which are reviewed at least annually by the Trust Board. AGF Trust uses external credit rating agencies in assessing the credit quality of certain investments in financial assets. The credit rating agencies used include DBRS, S&P and Moody's. Refer to Note 2 for a breakdown of the credit ratings for AGF Trust's investments available for sale.

The Company's most significant credit risk is through AGF Trust's real estate secured loans and investment loans. AGF Trust mitigates this risk through stringent credit policies and lending practices. These policies aim to ensure that the authority to approve credit applications is appropriately delegated by senior management of AGF Trust, depending on the risk and the amount of the credit application. The credit policies also provide guidelines for pricing based on risk, for reviewing any collateral pledged for a credit application, monitoring of impaired loans and for establishing and reviewing loan loss provisions to ensure they are adequate. The policies establish risk limits for credit concentration by counterparty, geographic location and other risk factors that would impact AGF Trust's credit risk profile.

At May 31, 2010, AGF Trust's loan assets totalled \$3.4 billion (November 30, 2009 – \$3.6 billion) and were comprised of mortgage loans, investment loans, RSP loans, finance loans and HELOC receivables. Of this amount, \$0.9 billion (November 30, 2009 – \$1.1 billion) was represented by mortgage loans and \$0.3 billion (November 30, 2009 – \$0.4 billion) was represented by HELOC receivables, both of which are secured by residential real estate. At May 31, 2010, 48.3% of mortgage loans were insured by Canada Mortgage and Housing Corporation (CMHC) or another insurer. Conventional uninsured mortgages have loan-to-value ratios of less than 80% of the appraised value of the property at the time the mortgage loan was granted. The average loan-to-value ratio of uninsured mortgage loans was 64.7% as at May 31, 2010 (2009 – 62.6 %).

Residential mortgages represent the largest component of the total mortgage portfolio, comprising 97.0% as at May 31, 2010 (November 30, 2009 – 97.0%). AGF Trust's credit risk on these loans is also mitigated through the use of collateral, primarily in the form of residential real estate. Under AGF Trust's lending criteria, management reviews all mortgage loans on a regular basis to determine the appropriate allowance for loss required by AGF Trust. Risk is also mitigated through residential mortgage insurance through CMHC or another insurer. As at May 31, 2010, \$442.3 million of AGF Trust's residential mortgage portfolio was insured (November 30, 2009 – \$501.3 million).

Credit risk for HELOCs and investment loans is mitigated by collateral in the form of residential mortgages and investment funds, respectively. Investment loans, excluding RSP loans, are secured primarily by the investment made using the initial loan proceeds. Refer to Note 6(a) for the carrying value of investment loans, excluding RSP loans, and the market value of related collateral.

RSP loans are used by borrowers to purchase assets in a retirement savings plan. The creditworthiness of each borrower is assessed prior to approval of the loan. Predictive scorecards are used to determine the probability of default and bankruptcy of the borrowers. On a regular basis, AGF Trust reviews the credit quality in the portfolio. Loans in arrears are also reviewed regularly to determine the appropriate loan loss reserves.

Derivative financial instruments expose AGF Trust to credit risk to the extent that if a counterparty default occurs, market conditions are such that AGF Trust would incur a loss in replacing the defaulted transaction. AGF Trust negotiates derivative master netting agreements with counterparties with which it contracts. These agreements reduce credit risk exposure. AGF Trust assesses the credit worthiness of the counterparties to minimize the risk of counterparty default under the agreements. AGF Trust only uses major Chartered banks as counterparties with a minimum credit rating of AA.

**Note 16: Segment Information**

AGF has three reportable segments: Investment Management Operations, Trust Company Operations and Other. The Investment Management Operations segment provides investment management and advisory services and is responsible for the management and distribution of AGF investment products. AGF Trust offers a wide range of trust services including GICs, term deposits, real estate secured loans and investment loans. The results of Smith & Williamson Holdings Limited have been included in Other.

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 2009 Annual Report.

<b>Three months ended May 31, 2010</b>	<b>Investment Management Operations</b>	<b>Trust Company Operations</b>	<b>Other<sup>1</sup></b>	<b>Total</b>
(\$ thousands)				
Revenue	\$ 132,254	\$ 24,789	\$ (3,289)	\$ 153,754
Operating expenses	76,793	14,439	–	91,232
Amortization and other expenses	21,402	616	2,053	24,071
Segment income before taxes	\$ 34,059	\$ 9,734	\$ (5,342)	\$ 38,451

  

<b>Three months ended May 31, 2009</b>	<b>Investment Management Operations</b>	<b>Trust Company Operations</b>	<b>Other<sup>1</sup></b>	<b>Total</b>
(\$ thousands)				
Revenue	\$ 112,982	\$ 28,285	\$ 2,261	\$ 143,528
Operating expenses	71,197	23,343	–	94,540
Amortization and other expenses	23,506	724	1,571	25,801
Segment income before taxes	\$ 18,279	\$ 4,218	\$ 690	\$ 23,187

  

<b>Six months ended May 31, 2010</b>	<b>Investment Management Operations</b>	<b>Trust Company Operations</b>	<b>Other<sup>1</sup></b>	<b>Total</b>
(\$ thousands)				
Revenue	\$ 262,943	\$ 48,670	\$ (1,615)	\$ 309,998
Operating expenses	153,093	27,195	–	180,288
Amortization and other expenses	43,245	1,262	3,887	48,394
Segment income before taxes	\$ 66,605	\$ 20,213	\$ (5,502)	\$ 81,316
Total Assets	\$ 1,136,133	\$ 4,240,618	\$ –	\$ 5,376,751

  

<b>Six months ended May 31, 2009</b>	<b>Investment Management Operations</b>	<b>Trust Company Operations</b>	<b>Other<sup>1</sup></b>	<b>Total</b>
(\$ thousands)				
Revenue	\$ 222,899	\$ 55,337	\$ 3,259	\$ 281,495
Operating expenses	146,310	43,423	–	189,733
Amortization and other expenses	47,727	1,427	3,131	52,285
Segment income before taxes	\$ 28,862	\$ 10,487	\$ 128	\$ 39,477
Total Assets	\$ 1,181,328	\$ 4,995,350	\$ –	\$ 6,176,678

<sup>1</sup> Other revenue relates to S&WHL.

*This report contains forward-looking statements with respect to AGF, including its business operations, strategy, financial performance and condition. Although management believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause results to differ materially include, among other things, general economic and market factors including interest rates, business competition, changes in government regulations or in tax laws, and other factors discussed in materials filed with applicable securities regulatory authorities from time to time.*