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

For the three and six months ended May 31, 2013

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AGF MANAGEMENT LIMITED
Second Quarter Report to Shareholders for the three and six months ended May 31, 2013

AGF MANAGEMENT LIMITED REPORTS SECOND QUARTER FINANCIAL RESULTS

AGF reports adjusted earnings per share of $0.17; retail sales improving

Toronto | June 26, 2013

AGF Management Limited (AGF or the Company) today announced financial results for the second quarter ended May 31, 2013, reporting adjusted diluted earnings per share of $0.17. The Company recorded a $25.9 million tax provision during the quarter, leading to a diluted loss from continuing operations of $0.12 per share compared to earnings of $0.17 per share for the three months ended May 31, 2012.

Total assets under management (AUM) were $37.6 billion for the second quarter of 2013 compared to $43.2 billion during the second quarter of 2012. Total retail fund AUM, including retail pooled funds, were $19.5 billion as of May 31, 2013, compared to $20.8 billion as of May 31, 2012. Institutional and sub-advisory AUM were $14.4 billion as of May 31, 2013, compared to $19.0 billion as of May 31, 2012. High-net-worth AUM increased for the third consecutive quarter ended May 31, 2013, with a 12.2% increase to $3.7 billion, compared to $3.3 billion for the corresponding period in 2012.

Redemption levels improved during the quarter, declining 10.2% from the first quarter of 2013 and 4.2% lower than 2012 levels. Gross sales remained constant over the same quarter in 2012. AGF's Floating Rate Income Fund continued its strong gross sales performance with $75.0 million in sales during the quarter and over $200.0 million since the fund's launch in May 2012. The fund was also added to the recommended list of a distribution partner during the quarter. Also in the quarter, AGF was successful in its institutional and sub-advisory business as it was awarded mandates by two major Canadian institutions as well as one of the largest local authorities in the U.K. These mandates represent over $636.0 million of AUM expected to fund in the third quarter of 2013.

"We are optimistic about the business going into the second half of 2013. From encouraging macroeconomic signals to some significant business wins for AGF, we are well positioned to take advantage of the improving economic climate and demand for global mandates," said AGF Chairman and Chief Executive Officer Blake C. Goldring.

Revenue from continuing operations was $126.9 million for the three months ended May 31, 2013, compared to $133.5 million for the three months ended May 31, 2012, driven primarily by lower AUM levels. Earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations was $46.1 million, compared to $50.3 million in the second quarter of 2012. For the three months ended May 31, 2013, net loss from continuing operations was $10.4 million compared to earnings of $16.8 million for the three months ended May 31, 2012.

The Company expects to receive a notice of reassessment from the Canada Revenue Agency (CRA) relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary. The Company believes its tax filing positions continue to be reasonable based on its transfer pricing methodology, and the Company is contesting the CRA's position. However, to reflect the uncertainties of the CRA's appeals process, the Company has recorded a tax provision of $25.9 million related to this matter in the second quarter of 2013.

In keeping with our commitment to return value to shareholders, dividends paid, including dividends reinvested, on Class A Voting common shares and Class B Non-Voting shares were $24.1 million in the second quarter of 2013. For the three months ended May 31, 2013, AGF declared a 27 cent per share dividend on Class A Voting common shares and Class B Non-Voting shares. During the quarter, under the current normal course issuer bid, 1,508,565 Class B Non-Voting shares were repurchased for a total consideration of $17.1 million.

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 and cost efficiency in our investment management 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 this MD&A.

Dear fellow shareholders,

Fiscal year 2013 continues to provide us with some encouraging economic signs, though not without continued volatility. In May of this year, the Dow Jones and S&P closed at record highs and Canada delivered an improving employment picture while inflation remains under control. While optimism looks to be growing among investors, highlighted by the 2013 RSP season which saw a shift out of cash and fixed income products into balanced and equity categories, some categories have slowed due to concerns about continued economic growth.

We have had a good second quarter, encouraged by a number of key business wins. Looking at our retail business, our Floating Rate Income Fund has generated $200 million in assets under management (AUM) since inception in May of last year. Based on its success, we are pleased to note that this fund was recently added to the recommended list of a large retail distribution partner.

Our retail mutual funds, excluding seed capital activity, recorded a 10.0% and a 15.0% increase in gross sales in April and May 2013, respectively, as compared to a year ago. In each of the last four months, our net outflows have improved over the equivalent month in 2012. Although we are not satisfied with the retail net outflows, the improving trends are encouraging.

Our institutional and sub-advisory business has also made significant progress during the quarter. We were awarded sub-advisory mandates from major institutions totalling $110 million, while on the institutional side, one of the largest local authorities in the U.K. is expected to fund a $430 million dollar Emerging Markets mandate. This latest win, combined with earlier flows, will bring year-to-date gross sales for our Emerging Markets strategy to over $1 billion dollars.

Buoyed by strong markets and solid performance, we continue to experience strong growth within our high-net-worth business. In the second quarter of 2013, high-net-worth AUM increased 12.2% to $3.7 billion, compared to $3.3 billion in the same quarter of 2012.

AGF's EBITDA from continuing operations was $46.1 million, compared to $50.3 million in second quarter of 2012. Diluted earnings per share for the second quarter of 2013, adjusted for an additional tax provision recorded in the quarter related to the Canada Revenue Agency (CRA) transfer pricing audit, was $0.17 per share, consistent with $0.17 per share in the second quarter of 2012.

Further to the CRA transfer pricing audit, we expect to receive a notice of reassessment from the CRA relating to the transfer pricing and allocation of income between one of our Canadian businesses and a foreign subsidiary. Transfer pricing arrangements have come under increasing scrutiny by tax authorities around the world and we are one of several Canadian companies to be dealing with this type of issue. We believe our tax filing positions are reasonable based on our transfer pricing methodology and we are contesting the CRA's position.

Our balance sheet remains strong and we continue to return value to our shareholders. During the quarter, we repurchased 1.5 million shares at a cost of $17.1 million and paid $24.1 million in dividend, or 87.0% of our free cash flow.

In closing, thank you to all of our stakeholders for your continual support and confidence in our business. For over 55 years, you have stood with us as we expanded from a Canadian independent investment firm to one with a strong global presence. We look forward to continuing to grow our business over the balance of 2013.

Sincerely,

Blake C. Goldring, M.S.M., CFA
Chairman and Chief Executive Officer
June 26, 2013

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

For the three and six months ended May 31, 2013

This Management's Discussion and Analysis (MD&A) is as of June 25, 2013, and presents an analysis of the financial condition of AGF and its subsidiaries for the three- and six-month period ended May 31, 2013, compared to the three- and six-month period ended May 31, 2012. The MD&A should be read in conjunction with our unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended May 31, 2013, and our 2012 Annual Report. The financial statements for the three and six months ended May 31, 2013, including required comparative information, have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, unless otherwise noted.

We also utilize non-IFRS financial measures to assess our overall performance. Details of non-IFRS measures used are outlined in the 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures' section, which provides calculations of the non-IFRS measures.

All dollar amounts are in Canadian dollars unless otherwise indicated. Throughout this discussion, percentage changes are calculated based on results rounded to the nearest thousand. Results, except per share information, are presented in millions of dollars. Percentage changes are calculated using numbers rounded to the decimals that appear in this MD&A.

On August 1, 2012, AGF successfully completed the sale of AGF Trust Company (AGF Trust) to B2B Bank, a subsidiary of Laurentian Bank. The operating results of AGF Trust for the three and six months ended May 31, 2012 are presented as discontinued operations.

There have been no material changes to the information discussed in the following sections of the 2012 Annual MD&A: 'Risk Factors and Management of Risk,' 'Contractual Obligations,' 'Intercompany and Related Party Transactions' and 'Government Regulations.'

Our Business

AGF Management Limited, with $37.6 billion in AUM as at May 31, 2013, is one of the largest independent Canadian-based investment management firms, with operations and investments in Canada, the United States, the United Kingdom, Ireland and Asia.

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, 2013, our products and services include a diversified family of award-winning mutual funds, mutual fund wrap programs and pooled funds. AGF also manages assets on behalf of institutional investors including pension plans, foundations, sovereign wealth funds and endowments as well as for high-net-worth clients. Our multi-disciplined investment management teams have expertise across the balanced, fixed income, equity and specialty asset categories and are located in Toronto, Dublin and Singapore.

Our retail business delivers a wide range of products across a number of investment strategies including AGF mutual funds, the AGF Elements portfolios and the Harmony Private Investment Program. Our products are delivered through multiple channels, including advisors, financial planners, banks, life insurance companies and brokers. We have sales organizations located across Canada serving regional advisors and their clients, while our strategic accounts team serves our corporate distribution partners.

Our institutional business offers a variety of investment mandates through pooled funds and segregated accounts. Our global institutional business provides investment management services for a variety of clients including institutions, pension funds, foundations, sovereign wealth funds and endowments. We offer a diverse range of investment strategies and have sales and client service offices in Toronto, London (Ontario), Boston, Dublin and Hong Kong.

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

We hold a 31.8% interest in Smith & Williamson Holdings Limited (S&WHL), a leading independent private client investment management, financial advisory and accounting group based in the U.K. S&WHL is one of the top 10 largest firms of accountants in the U.K. and its investment management business has over £14 billion of funds under management and advice as at May 31, 2013. This interest is accounted for using the equity method.

For purposes of this discussion, the operations of AGF and our subsidiary companies are referred to as 'we,' 'us,' 'our,' 'the firm' or 'the Company.'

Key Performance Drivers

AUM levels are critical to our business. The primary sources of revenue for AGF are management and advisory fees. These fees are based on a specific percentage of the average AUM. The amount of management and advisory fees depends on the level and composition of AUM, which in turn is dependent upon investment performance and net sales. These fees are generated from our mutual fund, institutional and sub-advisory accounts and high-net-worth relationships. AUM will fluctuate in value as a result of sales and redemptions, investment performance and acquisitions.

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, increased revenues for the firm.

Gross sales and redemptions are monitored separately and the sum of these two amounts comprises net sales (redemptions). Net sales (redemptions) also impact AUM levels. Net sales increase AUM and, in turn, increase revenues for the firm. Net redemptions decrease AUM and, in turn, reduce revenues for the firm.

Acquisitions will also affect the level of AGF's AUM. AGF may consider strategic acquisitions that could supplement existing investment capabilities and fund new product growth.

AGF uses several key performance indicators (KPIs) to measure the success of our business strategies. Refer to the 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures' section of this MD&A.

Our Strategy and Quarterly Overview

AGF Management Limited is committed to helping investors succeed. We strive to provide world-class financial solutions to clients in Canada and abroad. We look to expand our business through organic growth supplemented by strategic acquisitions while continuing to focus on our key financial priorities to create long-term value for all our stakeholders.

We provide 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 our distribution partners.

Year-over-year improvement in these measures is expected to result in improved cash flows as well as improved return on equity. Our objective is the return of a fair share of the annual cash flow to shareholders in the form of dividends and through share buybacks, with the remaining cash flow being invested in a manner intended to support future growth.

Our strategy also recognizes that the investment management business will experience cycles related to the global stock markets, credit availability, employment levels and other economic factors. We believe that a successful strategy is founded on the ability of our operations to effectively operate through economic downturns and upturns by controlling cost and maintaining an effective operational infrastructure.

Summary of Key Financial and Operational Results for the Second Quarter of 2013:

- Total AUM were $37.6 billion at May 31, 2013, as compared to $43.2 billion at May 31, 2012.
- Retail fund net redemptions improved to $610.0 million for the three months ended May 31, 2013, compared to net redemptions of $729.0 million for the three months ended May 31, 2012.
- Our institutional business had a positive pipeline, generating commitments from clients totalling $526.0 million. In addition, Emerging Markets Value was added to S&WHL's distribution platform. Emerging Markets Value is a strategy managed by our Dublin office; it was incubated by AGF and was recently launched into the institutional marketplace.
- During the quarter we made progress in our domestic sub-advisory business. Our Global Equity strategy was added to the platform of a life insurer. We also received commitment for a $110.0 million mandate with a large bank platform for our Global Dividend strategy.
- High-net-worth AUM increased 12.2% to $3.7 billion compared to $3.3 billion at May 31, 2012.
- We delivered value directly to our shareholders through dividend payments and share buybacks. Dividends paid, including dividends reinvested, on Class A Voting common shares and Class B Non-Voting shares were $24.1 million for the three months ended May 31, 2013, compared to $26.0 million for the three months ended May 31, 2012. Under the current normal course issuer bid, 1,508,565 Class B Non-Voting shares were repurchased for a total consideration of $17.1 million at an average price of $11.31.
- Revenue from continuing operations was $126.9 million compared to $133.5 million in the same period of 2012, reflecting lower AUM levels.

- EBITDA from continuing operations decreased to $46.1 million compared to $50.3 million in the second quarter of 2012. EBITDA margin decreased to 36.3% compared to 37.7% in the second quarter of 2012.
- During the quarter, we increased our ownership interest in Highstreet Partners Limited to 100%.
- Diluted EPS from continuing operations for the three months ended May 31, 2013 was a loss of $0.12 per share compared to earnings of $0.17 per share in the second quarter of 2012. Adjusting for a $25.9 million increase in our tax provision related to the CRA notice of reassessment, the adjusted diluted EPS from continuing operations was $0.17 per share in the second quarter of 2013.
- For the one-year period ended May 31, 2013, 22% of ranked AUM performed above median, compared to 40% in the second quarter of 2012. AGF's three-year investment management performance improved during the second quarter of 2013. For the three-year period ended May 31, 2013, 25% of ranked AUM performed above median, compared to 23% in the second quarter of 2012.

Update on the CRA Transfer Pricing Audit:

- In February 2013, the Company received a proposal letter from the CRA relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary, which proposed to increase the Company's taxes payable for its 2005, 2006 and 2007 fiscal years, respectively. Subsequent to receiving the proposal letter, the Company has had discussions with the CRA and has been informed about a forthcoming Notice of Reassessment (NOR) to be issued. Although the NOR has not yet been received, it is estimated that the NOR will increase the Company's taxes payable by $10.0 million, $10.5 million and $15.3 million (before the application of any interest or transfer pricing penalties) for its 2005, 2006 and 2007 fiscal years, respectively. The Company strongly disagrees with the CRA's position and will respond to any forthcoming NOR with which it does not agree. The Company believes its tax filing positions continue to be reasonable based on its transfer pricing methodology, and the Company is contesting the CRA's position and any related transfer pricing penalty. However, to reflect the uncertainties of the CRA's appeals process, and based on the information provided by the CRA to date and the imminent receipt of the NOR, the Company has recorded a tax provision of $25.9 million related to this matter in the second quarter of 2013. The Company believes it is likely that the CRA will reassess its tax returns for subsequent years on a similar basis and that this may result in future cash payments on receipt of the reassessments. Upon receipt of the NOR, any decision to contest the NOR will result in the Company being required to pay 50% of the federal amount reassessed although the ultimate outcome may differ from the amount reassessed. The amount of tax provision recorded on the Consolidated Interim Statement of Financial Position reflects management's best estimate of the ultimate resolution on this matter and includes an estimate for reassessments for the 2005 to 2013 fiscal years. The final result of the audit and appeals process may vary compared to the estimates and assumptions used by management in determining the Company's consolidated income tax provision and in valuing its income tax assets and liabilities. Depending on the ultimate outcome of any such audit and appeals process, there may be a material impact on the Company's financial position, results of operations and cash flows. The Company has been accepted by the CRA into a Bilateral Advance Pricing Arrangement (BAPA) program between Canada and the relevant tax authorities to establish the appropriate transfer pricing methodologies for the tax years 2009 through 2016.

Assets Under Management

The following table illustrates the composition of the changes in total AUM during the three and six months ended May 31, 2013 and 2012:

($ millions)	Three months ended May 31, 2013	2012	% change
Retail fund AUM (including retail pooled funds), beginning of period	$ 20,034	$ 22,975	(12.8)%
Gross sales	520	514	1.2%
Redemptions	(1,130)	(1,243)	(9.1)%
Net redemptions	(610)	(729)	(16.3)%
Market appreciation (depreciation) of fund portfolios	52	(1,400)	(103.7)%
Retail fund AUM (including retail pooled funds), end of period	$ 19,476	$ 20,846	(6.6)%
Average daily retail fund AUM for the period	$ 19,711	$ 21,956	(10.2)%
Institutional and sub-advisory accounts AUM, beginning of period	$ 15,592	$ 21,468	(27.4)%
Net change in institutional and sub-advisory accounts	(1,190)	(2,429)	(51.0)%
Institutional and sub-advisory accounts AUM	$ 14,402	$ 19,039	(24.4)%
High-net-worth AUM	$ 3,698	$ 3,297	12.2%
Total AUM, end of period	$ 37,576	$ 43,182	(13.0)%

($ millions)	Six months ended May 31, 2013	2012	% change
Retail fund AUM (including retail pooled funds), beginning of period	$ 20,096	$ 22,703	(11.5)%
Gross sales	1,057	1,085	(2.6)%
Redemptions	(2,389)	(2,494)	(4.2)%
Net redemptions	(1,332)	(1,409)	(5.5)%
Market appreciation (depreciation) of fund portfolios	712	(448)	(258.9)%
Retail fund AUM (including retail pooled funds), end of period	$ 19,476	$ 20,846	(6.6)%
Average daily retail fund AUM for the period	$ 19,914	$ 22,334	(10.8)%
Institutional and sub-advisory accounts AUM, beginning of year	$ 15,677	$ 20,119	(22.1)%
Net change in institutional and sub-advisory accounts	(1,275)	(1,080)	18.1%
Institutional and sub-advisory accounts AUM	$ 14,402	$ 19,039	(24.4)%
High-net-worth AUM	$ 3,698	$ 3,297	12.2%
Total AUM, end of period	$ 37,576	$ 43,182	(13.0)%

Redemptions resulted in a decrease in retail fund AUM, including retail pooled funds, of 6.6% to $19.5 billion, from $20.8 billion as at May 31, 2012. Retail fund net redemptions, including retail pooled funds, decreased to $610.0 million from $729.0 million for the three months ended May 31, 2013, compared to the same period in the prior year. The average daily retail fund AUM for the three months ended May 31, 2013 decreased to $19.7 billion, compared to $22.0 billion in the corresponding period in 2012. Our institutional and sub-advisory accounts AUM decreased to $14.4 billion as at May 31, 2013, compared to $19.0 billion as at May 31, 2012. The decline in institutional AUM was primarily due to client redemptions. Our high-net-worth AUM increased 12.2% to $3.7 billion at May 31, 2013, compared to $3.3 billion at May 31, 2012. Overall, total AUM decreased to $37.6 billion, compared to $43.2 billion as at May 31, 2012.

Stock market performance influences our AUM levels. Returns for the three and six months ended May 31, 2013 are as follows:

Stock market performance	Three months ended May 31, 2013	Six months ended May 31, 2013
AGF Retail Fund Portfolios	0.3%	3.5%
MSCI Emerging Markets	(2.8%)	5.8%
S&P 500[1]	8.9%	21.5%
NASDAQ[1]	10.1%	19.8%
S&P/TSX Composite	(0.5%)	5.0%
MSCI	6.5%	18.6%

[1] Canadian dollar adjusted.

Consolidated Operating Results

The table below summarizes our consolidated operating results for the three and six months ended May 31, 2013 and 2012:

	Three months ended May 31,			Six months ended May 31,		
($ millions, except per share data)	2013	2012	% change	2013	2012	% change
Revenue						
Management and advisory fees	$ 113.6	$ 125.7	(9.6%)	$ 228.4	$ 253.1	(9.8%)
Deferred sales charges	4.4	5.6	(21.4%)	9.0	11.3	(20.4%)
Share of profit of associated company	3.3	2.1	57.1%	4.7	3.5	34.3%
Fair value adjustments and other income (loss)	5.6	0.1	n/m	7.4	(2.5)	n/m
	126.9	133.5	(4.9%)	249.5	265.4	(6.0%)
Expenses						
Selling, general and administrative	47.9	47.0	1.9%	92.0	90.1	2.1%
Trailing commissions	31.7	34.2	(7.3%)	63.2	68.5	(7.7%)
Investment advisory fees	1.2	2.0	(40.0%)	2.8	4.1	(31.7%)
	80.8	83.2	(2.9%)	158.0	162.7	(2.9%)
EBITDA from continuing operations[1]	46.1	50.3	(8.3%)	91.5	102.7	(10.9%)
Amortization, derecognition and depreciation	22.7	25.1	(9.6%)	43.5	49.2	(11.6%)
Interest expense	2.9	2.5	16.0%	5.7	5.8	(1.7%)
Income before taxes	20.5	22.7	(9.7%)	42.3	47.7	(11.3%)
Income taxes	30.9	5.9	423.7%	37.1	13.6	172.8%
Net income (loss) from continuing operations	(10.4)	16.8	n/m	5.2	34.1	n/m
Net income from discontinued operations	–	7.1	n/m	–	15.9	n/m
Net income attributable to non-controlling interest	–	0.1	n/m	–	0.1	n/m
Net income (loss) attributable to equity owners of the Company	$ (10.4)	$ 23.8	n/m	$ 5.2	$ 49.9	(89.6%)
Diluted earnings (loss) per share						
From continuing operations	$ (0.12)	$ 0.17	n/m	$ 0.06	$ 0.35	(82.9%)
From discontinued operations	–	0.08	n/m	–	0.17	n/m
From net income (loss) for the period	$ (0.12)	$ 0.25	n/m	$ 0.06	$ 0.52	(88.5%)

[1] For the definition of EBITDA, see the 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures' section. The items required to reconcile EBITDA to net income from continuing operations, a defined term under IFRS, are detailed above.

Revenue

For the three and six months ended May 31, 2013, revenue decreased by 4.9% and 6.0% over the previous periods, with changes in the categories as follows:

Management and Advisory Fees

Management and advisory fees are directly related to our AUM levels. The 10.2% and 10.8% decrease in average daily retail fund AUM for the three and six months ended May 31, 2013, combined with a decrease in institutional and sub-advisory accounts AUM at May 31, 2013, contributed to a 9.6% and 9.8% decrease in management and advisory fees revenue compared to 2012.

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 1.5% to 5.5%, 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 decreased by 21.4% and 20.4% for the three and six months ended May 31, 2013 as compared to 2012, reflecting the redemption of a larger proportion of older, lower-yielding DSC assets.

Share of Profit of Associated Company

Share of profit of associated company increased to $3.3 million and $4.7 million for the three and six months ended May 31, 2013, compared to $2.1 million and $3.5 million during the same periods in 2012.

Fair Value Adjustments and Other Income

The following table illustrates the fair value adjustments and other income for the three and six months ended May 31, 2013 and 2012:

	Three months ended May 31,	
($ millions)	2013	2012
Fair value adjustment related to investment in AGF mutual funds	$ 0.5	$ (1.2)
Fair value adjustment related to acquisition consideration payable	(0.1)	2.2
Fair value adjustment related to put agreement with non-controlling shareholders	0.4	(1.5)
Interest income and other	4.9	0.6
	$ 5.7	$ 0.1

	Six months ended May 31,	
($ millions)	2013	2012
Fair value adjustment related to investment in AGF mutual funds	$ 0.7	$ (0.6)
Fair value adjustment related to acquisition consideration payable	(0.8)	–
Fair value adjustment related to put agreement with non-controlling shareholders	0.7	(2.6)
Interest income and other	6.7	0.8
	$ 7.3	$ (2.4)

Interest income and other was $4.9 million and $6.7 million for the three and six months ended May 31, 2013, reflecting increased cash levels and $3.7 million of one-time other income recognized during the period.

Expenses

For the three and six months ended May 31, 2013, expenses decreased 2.9% and 2.9% 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 $0.9 million and $1.9 million for the three months and six months ended May 31, 2013, compared to the same periods in 2012. A breakdown of the increase is as follows:

($ millions)	Three months ended May 31, 2013	Six months ended May 31, 2013
Increase in compensation-related expenses	$ 1.7	$ 3.3
Increase (decrease) in fund absorption expenses and other fund costs	(0.5)	0.1
Decrease in other expenses	(0.3)	(1.5)
	$ 0.9	$ 1.9

The following explains expense changes in the three and six months ended May 31, 2013, compared to the same periods in the prior year:

- Compensation-related expenses increased $1.7 million and $3.3 million for the three and six months ended May 31, 2013 as a result of a $2.6 million and $4.7 million increase in stock-based compensation expense for the three and six months ended May 31, 2013, compared to the same period in 2012. This increase is mainly attributable to the Restricted Share Units, which are marked to market according to the Class B Non-Voting share price. The increase reflects the impact of an increasing share price in 2013 versus a declining share price in 2012. This increase was offset by lower compensation costs reflecting lower staff levels.
- Absorption and other fund costs decreased $0.5 million for the three months ended May 31, 2013 and increased $0.1 million for the six months ended May 31, 2013. Excluding a $1.6 million and $3.1 million increase for the three and six months ended May 31, 2013, related to a change in accounting presentation due to a change in an agreement, absorption and other fund costs decreased $2.1 million and $3.0 million for the three and six months ended May 31, 2013, reflecting lower fund merger costs and project costs associated with the funds in 2013. Absorption costs remained relatively stable year over year.
- Other expenses decreased $0.3 million and $1.5 million for the three and six months ended May 31, 2013, due to lower facility costs partially offset by higher professional fees as a result of the CRA transfer pricing audit.

Trailing Commissions

Trailing commissions paid to distributors 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. Annualized trailing commissions as a percentage of average daily retail fund AUM were 0.64% and 0.63% for the three and six months ended May 31, 2013, compared to 0.62% and 0.61% in the same periods of 2012.

Investment Advisory Fees

External investment advisory fees decreased 40.0% and 31.7% for the three and six months ended May 31, 2013, as compared to the three and six months ended May 31, 2012, reflecting lower AUM levels and the repatriation of certain funds' management in-house.

EBITDA, EBITDA Margin and EBITDA per Share

EBITDA from continuing operations were $46.1 million and $91.5 million for the three and six months ended May 31, 2013, a 8.3% and 10.9% decrease from $50.3 million and $102.7 million for the same periods of 2012. EBITDA margin was 36.3% and 36.7% for the three and six months ended May 31, 2013, compared to 37.7% and 38.7% in the corresponding periods in 2012. Diluted EBITDA per share from continuing operations for the three and six months ended May 31, 2013 was $0.52 and $1.02, compared to $0.52 and $1.06 for the three and six months ended May 31, 2012.

Amortization and Interest Expense

The category represents amortization of deferred selling commissions, customer contracts, other intangible assets, property, equipment, and computer software and interest expense. Deferred selling commissions amortization represents the most significant category of amortization. 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. Unamortized deferred selling commissions related to units redeemed prior to the end of the schedule are immediately expensed. Amortization expense related to deferred selling commissions was $14.7 million and $29.7 million for the three and six months ended May 31, 2013, compared to $16.8 million and $33.7 million for the same periods of 2012. During the three and six months ended May 31, 2013, we paid $11.2 million and $20.8 million in selling commissions, compared to $11.2 million and $21.3 million in the same periods of 2012, reflecting stable sales. As at May 31, 2013, the unamortized balance of deferred selling commissions financed was $127.9 million (November 30, 2012 – $136.8 million).

Customer contracts amortization decreased $3.2 million and $5.0 million for the three and six months ended May 31, 2013, as a result of fewer redemptions and a lower net book value. Customer contracts are immediately expensed upon redemption of the AUM. Interest expense increased as a result of higher interest rates.

Other intangibles amortization increased $2.6 million for the three and six months ended May 31, 2013, as a result of the determination that certain management contracts and other intangibles no longer have an indefinite life. As a result, these intangibles are being amortized over their remaining expected life of five years.

Income Tax Expense

Income tax expense for the three and six months ended May 31, 2013 was $30.9 million and $37.1 million as compared to $5.9 million and $13.6 million in the corresponding periods in 2012. The estimated effective tax rate for the six months ended May 31, 2013 was 87.8% (2012 – 28.6%). Excluding the tax contingencies recorded for the CRA transfer pricing audit, the estimated effective tax rate for the first six months of fiscal 2013 was 25.8%, compared to 26.5% in the same period of 2012 for continuing operations. For additional detail, refer to 'Our Strategy and Quarterly Overview' section.

Pre-tax Profit Margin

Pre-tax profit margin decreased to 16.2% and 17.0% for the three and six months ended May 31, 2013, compared to 17.0% and 18.0% in the corresponding period in 2012, reflecting the impact of lower revenues as a result of lower AUM.

Net Income

The impact of the above revenue and expense items resulted in a net loss from continuing operations of $10.4 million for the three months ended May 31, 2013 and net income of $5.2 million for the six months ended May 31, 2013, as compared to net income from continuing operations of $16.8 million and $34.1 million in the corresponding periods in 2012.

Earnings (Loss) per Share

Diluted earnings per share from continuing operations was a loss of $0.12 and earnings of $0.06 per share for the three and six months ended May 31, 2013, as compared to earnings of $0.17 and $0.35 per share in the corresponding periods of 2012. Adjusting for the $25.9 million and $26.2 million increase in our tax provision related to the CRA transfer pricing audit for the three and six months ended May 31, 2013, the adjusted diluted earnings per share from continuing operations were $0.17 and $0.35.

Liquidity and Capital Resources

Free cash flow generated from continuing operating activities was $27.7 million and $52.2 million for the three and six months ended May 31, 2013, compared to $29.0 million and $53.3 million in the prior year. The primary uses of cash for the three and six months ended May 31, 2013 were as follows:

- During the three and six months ended May 31, 2013, we repurchased a total of 1,508,565 shares for $17.1 million.
- We paid $23.4 million and $46.9 million in dividends for the three and six months ended May 31, 2013, compared to $25.3 million and $50.4 million in 2012.
- We paid $2.3 million and $3.1 million during the three and six months ended May 31, 2013, to increase our ownership interest in Highstreet Partners Limited to 100%.

Consolidated cash and cash equivalents of $357.1 million decreased by $14.2 million from November 30, 2012.

Total long-term debt outstanding at May 31, 2013 was $308.7 million (November 30, 2012 – $308.4 million). We also have a four-year prime rate-based revolving term loan facility to a maximum of $200.0 million, of which $194.9 million was available to be drawn as at May 31, 2013. The loan facility will be available to meet future operational and investment needs. We anticipate that cash balances and 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, pay quarterly dividends and fund any future share buybacks and fund any potential advance deposit related to the NOR expected to be received from the CRA.

Capital Management Activities from Continuing Operations

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 three-year plan detailing projected operating budgets and capital requirements. AGF is required to prepare and submit a three-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, Executive Vice-President and CFO, and the Executive Vice-President and Chief Operating Officer. Once approved by the Finance Committee, the three-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.

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.

Normal Course Issuer Bid

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 Toronto Stock Exchange (TSX). AGF relies on an automatic purchase plan during the normal course issuer bid. The automatic purchase plan allows for purchases by AGF of its Class B Non-Voting shares during certain pre-determined black-out periods, subject to certain parameters. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its normal course issuer bid, 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 TSX. AGF may purchase up to 6,729,228 Class B Non-Voting shares, or 10% of the public float for such shares, through the facilities of the TSX (or as otherwise permitted by the TSX) between February 1, 2013 and January 31, 2014.

During the three and six months ended May 31, 2013, under the current normal course issuer bid, 1,508,565 Class B Non-Voting shares were repurchased for a total consideration of $17.1 million at an average price of $11.31.

Dividends

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 revolving loan or acquisition facilities 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 TSX 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	2013[1]	2012	2011	2010	2009
Per share	$ 0.81	$ 1.08	$ 1.07	$ 1.04	$ 1.00
Percentage increase	–	1%	3%	4%	5%

[1] Represents the total dividends paid in January 2013 and April 2013, and to be paid in July 2013.

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. The quarterly dividend paid on April 19, 2013 was $0.27 per share.

Outstanding Share Data

Set out below is our outstanding share data as at May 31, 2013 and May 31, 2012. For additional detail, see Note 7 and Note 11 of the Condensed Consolidated Interim Financial Statements.

	As at May 31,	
	2013	2012
Shares		
Class A Voting common shares	57,600	57,600
Class B Non-Voting shares	87,924,987	96,121,066
Stock Options[1]		
Outstanding options (including discontinued operations)	5,694,416	5,184,226
Exercisable options (including discontinued operations)	3,016,275	3,316,060

[1] Includes stock options outstanding related to AGF Trust.

Key Performance Indicators, Additional IFRS and Non-IFRS Measures

We measure the success of our business strategies using a number of KPIs, which are outlined below. With the exception of revenue, the following KPIs are non-IFRS measures, which are not defined under IFRS. They should not be considered as an alternative to net income attributable to equity owners of the Company or any other measure of performance under IFRS.

Consolidated Continuing Operations

Revenue

Revenue is a measurement defined by IFRS 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
- DSC earned from investors when mutual fund securities sold on a DSC basis are redeemed
- 31.8% equity interest in S&WHL

EBITDA

We define EBITDA from continuing operations as earnings before interest, taxes, depreciation and amortization. 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.

Please see the Consolidated Operating Results section on page 10 of this MD&A for a schedule showing how EBITDA reconciles to our IFRS financial statements.

Free Cash Flow

We define free cash flow from continuing operations as cash flow from operations before net changes in non-cash balances related to operations less interest 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 from continuing operations represents cash available for distribution to our shareholders, share buybacks and for general corporate purposes.

	Three months ended May 31,		Six months ended May 31,	
($ millions)	2013	2012	2013	2012
Net cash provided by continuing operating activities	$ 44.3	$ 31.2	$ 45.0	$ 36.5
Adjusted for:				
Net changes in non-cash working capital balances related to continuing operations	(13.6)	0.6	13.0	22.5
Interest paid	(3.0)	(2.8)	(5.8)	(5.7)
Free cash flow	$ 27.7	$ 29.0	$ 52.2	$ 53.3

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.

	Three months ended May 31,		Six months ended May 31,	
($ millions)	2013	2012	2013	2012
EBITDA	$ 46.1	$ 50.3	$ 91.5	$ 102.7
Divided by revenue	126.9	133.5	249.5	265.4
EBITDA margin	36.3%	37.7%	36.7%	38.7%

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.

	Three months ended May 31,		Six months ended May 31,	
($ millions)	2013	2012	2013	2012
Net income (loss) from continuing operations	$ (10.4)	$ 16.8	$ 5.2	$ 34.1
Add: income taxes	30.9	5.9	37.1	13.6
Income before taxes	$ 20.5	$ 22.7	$ 42.3	$ 47.7
Divided by revenue	126.9	133.5	249.5	265.4
Pre-tax profit margin	16.2%	17.0%	17.0%	18.0%

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 (loss) attributable to equity owners of the Company by average shareholders' equity.

	Three months ended May 31,	
($ millions)	2013	2012
Net income from continuing operations (annualized)[1]	$ 36.1	$ 67.2
Divided by average shareholders' equity	1,027.0	1,187.0
Return on equity	3.5%	5.7%

[1] The $25.9 million tax provision included in net income has not been annualized.

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 period divided by annualized EBITDA for the period.

	Three months ended May 31,	
($ millions)	2013	2012
Long-term debt[1]	$ 308.7	$ 312.1
Divided by EBITDA (annualized)	184.4	201.2
Long-term debt to EBITDA	167.4%	155.1%

[1] Includes deferred cash consideration related to the Acuity acquisition.

Assets Under Management

The amount of AUM is critical to our business since these assets generate fees from our mutual fund, institutional and sub-advisory accounts and high-net-worth relationships. AUM will fluctuate in value as a result of investment performance, sales and redemptions. Mutual fund sales and AUM determine a significant portion of our expenses because we pay upfront commissions on gross sales 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 this report for further information.

Net Sales (Redemptions)

Gross sales and redemptions are monitored separately and the sum of these two amounts comprises net sales (redemptions). Net sales (redemptions), together with investment performance and fund expenses, determine the level of average daily retail fund AUM, which is the basis on which management fees are charged. The average daily retail fund AUM is equal to the aggregate average daily net asset value of the AGF retail funds. We monitor AUM in our institutional, sub-advisory and high-net-worth businesses separately. We do not compute an average daily retail fund AUM figure for them.

EBITDA Margin (Excluding Share of Profit of Associated Company)

EBITDA margin provides useful information to management and investors as an indicator of our operating performance in our Investment Management Operations, excluding share of profit of associated company. 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.

	Three months ended May 31,		Six months ended May 31,	
($ millions)	2013	2012	2013	2012
EBITDA	$ 42.8	$ 48.2	$ 86.8	$ 99.2
Divided by revenue	123.6	131.4	244.8	261.9
EBITDA margin	34.6%	36.7%	35.5%	37.9%

Pre-tax Profit Margin (Excluding Share of Profit of Associated Company)

Pre-tax profit margin provides useful information to management and investors as an indicator of our operating performance in our Investment Management Operations, excluding share of profit of associated company. 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 revenue.

	Three months ended May 31,		Six months ended May 31,	
($ millions)	2013	2012	2013	2012
Income before taxes and non-segmented items	$ 17.2	$ 20.6	$ 37.6	$ 44.2
Divided by revenue	123.6	131.4	244.8	261.9
Pre-tax profit margin	13.9%	15.7%	15.4%	16.9%

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 2012 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.

Internal Control 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 changes to AGF's internal controls for the quarter ended May 31, 2013 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

Selected Quarterly Information

($ millions, except per share amounts) For the three-month period ended	May 31, 2013	Feb. 28, 2013	Nov. 30, 2012	Aug. 31, 2012
Revenue (continuing operations)	$ 126.9	$ 122.5	$ 125.0	$ 119.8
Free cash flow [1]	27.7	24.4	24.9	17.7
EBITDA (continuing operations)[2]	46.1	45.3	50.0	36.3
Pre-tax income (loss) (continuing operations)	20.5	21.8	23.4	(12.5)
Net income (loss) attributable to equity owners of the Company	(10.4)	15.6	15.7	(13.3)
Net income (loss) (continuing operations)	(10.4)	15.6	13.0	(19.3)
EBITDA per share (continuing operations)				
Basic	$ 0.52	$ 0.51	$ 0.55	$ 0.38
Diluted	$ 0.52	$ 0.51	$ 0.55	$ 0.38
Earnings (loss) per share attributable to equity owners of the Company				
Basic (continuing operations)	$ (0.12)	$ 0.18	$ 0.14	$ (0.20)
Diluted (continuing operations)	$ (0.12)	$ 0.17	$ 0.14	$ (0.20)
Basic	$ (0.12)	$ 0.18	$ 0.17	$ (0.14)
Diluted	$ (0.12)	$ 0.17	$ 0.17	$ (0.14)
Weighted average basic shares	88,880,598	89,229,202	90,329,013	94,311,520
Weighted average fully diluted shares	89,395,236	89,538,278	90,594,421	94,687,056

($ millions, except per share amounts) For the three-month period ended	May 31, 2012	Feb. 29, 2012	Nov. 30, 2011	Aug. 31, 2011
Revenue (continuing operations)	$ 133.5	$ 132.0	$ 138.2	$ 151.4
Free cash flow [1]	29.0	24.3	43.2	39.0
EBITDA (continuing operations)[2]	50.3	52.5	56.3	61.6
Pre-tax income (continuing operations)	22.7	25.0	28.1	18.0
Net income attributable to equity owners of the Company	23.8	26.1	25.1	15.4
Net income (continuing operations)	16.8	17.3	18.0	8.5
EBITDA per share (continuing operations)				
Basic	$ 0.52	$ 0.55	$ 0.59	$ 0.64
Diluted	$ 0.52	$ 0.54	$ 0.59	$ 0.64
Earnings per share attributable to equity owners of the Company				
Basic (continuing operations)	$ 0.17	$ 0.18	$ 0.19	$ 0.09
Diluted (continuing operations)	$ 0.17	$ 0.18	$ 0.19	$ 0.09
Basic	$ 0.25	$ 0.27	$ 0.26	$ 0.16
Diluted	$ 0.25	$ 0.27	$ 0.26	$ 0.16
Weighted average basic shares	96,143,964	95,662,657	95,230,703	95,518,051
Weighted average fully diluted shares	96,735,309	96,372,419	95,932,850	96,446,821

[1] Free cash flow as previously defined, see 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures – Free Cash Flow' section.

[2] As previously defined, see 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures – EBITDA' section.

Additional Information

Additional information relating to the Company can be found in the Company's Condensed Consolidated Interim Financial Statements and accompanying notes for the three and six months ended May 31, 2013, the Company's 2012 Annual Information Form (AIF) and other documents filed with applicable securities regulators in Canada and may be accessed at www.sedar.com.

AGF Management Limited
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended May 31, 2013

What are you doing after work?®

(unaudited) (in thousands of Canadian dollars)	Note	May 31, 2013	November 30, 2012
Assets			
Current Assets			
Cash and cash equivalents		$ 357,056	$ 371,299
Investments	3	15,590	30,177
Accounts receivable, prepaid expenses and other assets		48,341	58,135
		420,987	459,611
Investment in associated company	3	77,068	74,362
Management contracts		689,759	704,842
Customer contracts, net of accumulated amortization and derecognition		14,587	18,692
Goodwill		244,549	244,549
Other intangibles, net of accumulated amortization and derecognition		26,970	17,285
Deferred selling commissions, net of accumulated amortization and derecognition		127,904	136,787
Property, equipment and computer software, net of accumulated depreciation		13,027	13,556
Deferred income tax assets		4,150	4,624
Other assets	4	6,024	11,123
Total assets		$ 1,625,025	$ 1,685,431
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 62,726	$ 85,969
Income tax liability	12, 16	48,398	23,159
Provision for Elements Advantage		1,989	2,557
Acquisition consideration payable	5	5,903	3,652
Derivative financial instrument	6	1,481	1,603
		120,497	116,940
Long-term debt	6	308,672	308,401
Acquisition consideration payable	5	–	5,150
Deferred income tax liabilities		184,575	188,156
Derivative financial instrument	6	1,880	2,784
Provision for Elements Advantage		1,750	1,780
Other long-term liabilities		8,548	6,898
Total liabilities		625,922	630,109
Equity			
Equity attributable to owners of the Company			
Capital stock	7	528,420	533,684
Contributed surplus		27,731	26,677
Retained earnings		442,980	495,323
Accumulated other comprehensive loss	8	(28)	(852)
		999,103	1,054,832
Non-controlling interest		–	490
Total equity		999,103	1,055,322
Total liabilities and equity		$ 1,625,025	$ 1,685,431

Contingencies (Note 16)

(The accompanying notes are an integral part of these condensed consolidated interim financial statements.)

(unaudited)		Three months ended	
(in thousands of Canadian dollars, except per share data)	Note	May 31, 2013	May 31, 2012
Revenue			
Management and advisory fees		$ 113,574	$ 125,716
Deferred sales charges		4,392	5,593
Share of profit of associated company	3	3,274	2,071
Fair value adjustments and other income	9	5,687	71
Total revenue		126,927	133,451
Expenses			
Selling, general and administrative	10	47,897	46,929
Trailing commissions		31,738	34,229
Investment advisory fees		1,213	2,012
Amortization and derecognition of deferred selling commissions		14,730	16,792
Amortization and derecognition of customer contracts		2,036	5,281
Amortization and derecognition of other intangibles		4,732	2,141
Depreciation of property, equipment and computer software		1,232	905
Interest expense		2,908	2,483
		106,486	110,772
Income before income taxes		**20,441**	**22,679**
Income tax expense (benefit)			
Current	12	33,306	6,321
Deferred	12	(2,438)	(421)
		30,868	5,900
Income (loss) from continuing operations, net of tax		(10,427)	16,779
Income from discontinued operations, net of tax	4	–	7,050
Net income (loss) for the period		**$ (10,427)**	**$ 23,829**
Net income (loss) attributable to:			
Equity owners of the Company		$ (10,422)	$ 23,772
Non-controlling interest		(5)	57
		$ (10,427)	$ 23,829
Earnings (loss) per share for the period attributable to the equity owners of the Company			
Basic earnings (loss) per share			
Continuing operations	13	$ (0.12)	$ 0.17
Discontinued operations	13	–	0.08
		$ (0.12)	$ 0.25
Diluted earnings (loss) per share			
Continuing operations	13	$ (0.12)	$ 0.17
Discontinued operations	13	–	0.08
		$ (0.12)	$ 0.25

(The accompanying notes are an integral part of these condensed consolidated interim financial statements.)

(unaudited)		Six months ended	
(in thousands of Canadian dollars, except per share data)	Note	May 31, 2013	May 31, 2012
Revenue			
Management and advisory fees		$ 228,402	$ 253,066
Deferred sales charges		9,031	11,271
Share of profit of associated company	3	4,703	3,474
Fair value adjustments and other income (loss)	9	7,317	(2,409)
Total revenue		249,453	265,402
Expenses			
Selling, general and administrative	10	92,040	90,096
Trailing commissions		63,215	68,484
Investment advisory fees		2,792	4,072
Amortization and derecognition of deferred selling commissions		29,691	33,658
Amortization and derecognition of customer contracts		4,105	9,067
Amortization and derecognition of other intangibles		7,333	4,730
Depreciation of property, equipment and computer software		2,318	1,758
Interest expense		5,714	5,814
		207,208	217,679
Income before income taxes		**42,245**	**47,723**
Income tax expense (benefit)			
Current	12	40,588	16,190
Deferred	12	(3,506)	(2,558)
		37,082	13,632
Income from continuing operations, net of tax		5,163	34,091
Income from discontinued operations, net of tax	4	–	15,919
Net income for the period		**$ 5,163**	**$ 50,010**
Net income (loss) attributable to:			
Equity owners of the Company		$ 5,196	$ 49,906
Non-controlling interest		(33)	104
		$ 5,163	$ 50,010
Earnings per share for the period attributable to the equity owners of the Company			
Basic earnings per share			
Continuing operations	13	$ 0.06	$ 0.35
Discontinued operations	13	–	0.17
		$ 0.06	$ 0.52
Diluted earnings per share			
Continuing operations	13	$ 0.06	$ 0.35
Discontinued operations	13	–	0.17
		$ 0.06	$ 0.52

(The accompanying notes are an integral part of these condensed consolidated interim financial statements.)

(unaudited) (in thousands of Canadian dollars)	Three months ended May 31, 2013	Three months ended May 31, 2012	Six months ended May 31, 2013	Six months ended May 31, 2012
Net income (loss) for the period	$ (10,427)	$ 23,829	$ 5,163	$ 50,010
Other comprehensive income (loss), net of tax				
Cumulative translation adjustment				
Foreign currency translation adjustments related to net investments in foreign operations	343	1,304	(754)	114
	343	1,304	(754)	114
Net unrealized gains (losses) on investments				
Unrealized gains (losses)	(22)	(655)	1,254	19
Reclassification of realized gain to earnings	(409)	–	(409)	–
	(431)	(655)	845	19
Net unrealized gains (losses) on cash flow hedge				
Unrealized gains (losses)	409	(701)	224	(483)
Reclassification of realized losses to earnings	248	256	509	523
	657	(445)	733	40
Total other comprehensive income from continuing operations, net of tax	$ 569	$ 204	$ 824	$ 173
Total other comprehensive loss from discontinued operations, net of tax	$ –	$ (498)	$ –	$ (2,781)
Comprehensive income (loss)	$ (9,858)	$ 23,535	$ 5,987	$ 47,402
Comprehensive income (loss) attributable to:				
Equity holders of the Company	$ (9,853)	$ 23,478	$ 6,020	$ 47,298
Non-controlling interest	(5)	57	(33)	104
	$ (9,858)	$ 23,535	$ 5,987	$ 47,402

All items presented in other comprehensive income (loss) will be reclassified to the consolidated statement of income (loss) in subsequent period

(The accompanying notes are an integral part of these condensed consolidated interim financial statements.)

(unaudited)

(in thousands of Canadian dollars)	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Attributable to equity owners of the Company	Non-controlling interest	Total equity
Balance, December 1, 2011	$ 560,838	$ 24,797	$ 589,765	$ 8,860	**$ 1,184,260**	$ 472	**$ 1,184,732**
Net income for the period	–	–	49,906	–	**49,906**	104	**50,010**
Other comprehensive loss (net of tax)	–	–	–	(2,608)	**(2,608)**	–	**(2,608)**
Comprehensive income (loss) for the period	–	–	49,906	(2,608)	**47,298**	104	**47,402**
Issued through dividend reinvestment plan	1,361	–	–	–	**1,361**	–	**1,361**
Stock options	538	1,122	–	–	**1,660**	–	**1,660**
AGF Class B Non-Voting shares repurchased for cancellation	(1,543)	–	(2,581)	–	**(4,124)**	–	**(4,124)**
AGF Class B Non-Voting shares issued on acquisition of Acuity	13,322	–	–	–	**13,322**	–	**13,322**
Dividends on AGF Class A Voting common shares and AGF Class B Non-Voting shares, including tax of $1.8 million	–	–	(53,484)	–	**(53,484)**	–	**(53,484)**
Increase in ownership interest in Highstreet Partners Limited	–	–	(584)	–	**(584)**	–	**(584)**
Dividends to non-controlling interest	–	–	–	–	**–**	(107)	**(107)**
Balance, May 31, 2012	$ 574,516	$ 25,919	$ 583,022	$ 6,252	**$ 1,189,709**	$ 469	**$ 1,190,178**
Balance, December 1, 2012	$ 533,684	$ 26,677	$ 495,323	$ (852)	**$ 1,054,832**	$ 490	**$ 1,055,322**
Net income (loss) for the period	–	–	5,196	–	**5,196**	(33)	**5,163**
Other comprehensive income (net of tax)	–	–	–	824	**824**	–	**824**
Comprehensive income (loss) for the period	–	–	5,196	824	**6,020**	(33)	**5,987**
Issued through dividend reinvestment plan	1,239	–	–	–	**1,239**	–	**1,239**
Stock options	1,329	1,054	–	–	**2,383**	–	**2,383**
AGF Class B Non-Voting shares repurchased for cancellation	(9,063)	–	(8,004)	–	**(17,067)**	–	**(17,067)**
AGF Class B Non-Voting shares issued on acquisition of Acuity	1,231	–	–	–	**1,231**	–	**1,231**
Dividends on AGF Class A Voting common shares and AGF Class B Non-Voting shares, including tax of $0.4 million	–	–	(48,537)	–	**(48,537)**	–	**(48,537)**
Increase in ownership interest in Highstreet Partners Limited	–	–	(998)	–	**(998)**	(454)	**(1,452)**
Dividends to non-controlling interest	–	–	–	–	**–**	(3)	**(3)**
Balance, May 31, 2013	$ 528,420	$ 27,731	$ 442,980	$ (28)	**$ 999,103**	$ –	**$ 999,103**

(The accompanying notes are an integral part of these condensed consolidated interim financial statements.)

(unaudited) (in thousands of Canadian dollars)	Note	Six months ended May 31, 2013	May 31, 2012
Operating Activities			
Net income for the period		$ 5,163	$ 50,010
Adjustments for			
Net income from discontinued operations		–	(15,919)
Amortization, derecognition and depreciation		43,447	49,213
Interest expense		5,714	5,814
Income tax expense	12	37,082	13,632
Income taxes paid		(15,214)	(27,471)
Stock-based compensation	11	5,692	503
Share of profit of associated company	3	(4,703)	(3,474)
Dividends from associated company	3	1,243	4,151
Deferred selling commissions paid		(20,808)	(21,349)
Other		412	3,828
		58,028	58,938
Net change in non-cash w orking capital balances related to operations			
Accounts receivable, prepaid expenses and other assets		9,794	14,592
Other assets		(1,165)	(1,803)
Accounts payable and accrued liabilities		(22,805)	(25,592)
Other liabilities		1,182	(9,667)
		(12,994)	(22,470)
Net cash provided by continuing operating activities		45,034	36,468
Net cash used in discontinued operating activities	4	–	(96,614)
Net cash provided by (used in) operating activities		45,034	(60,146)
Financing Activities			
Repurchase of Class B Non-Voting shares for cancellation		(17,067)	(4,124)
Issue of Class B Non-Voting shares		1,243	503
Dividends paid		(46,897)	(50,367)
Interest paid		(5,800)	(5,677)
Net cash used in continuing financing activities		(68,521)	(59,665)
Net cash provided by discontinued financing activities	4	–	330,475
Net cash provided by (used in) financing activities		(68,521)	270,810
Investing Activities			
Increase in ow nership interest in Highstreet Partners Limited	5	(3,115)	(584)
Acquisition of Acuity Funds Ltd. and Acuity Investment Management Inc.	5	(2,713)	(20,976)
Purchase of property, equipment and computer softw are		(1,789)	(2,330)
Purchase of investments	3	(607)	(14,784)
Proceeds from sale of investments	3	17,468	3,588
Net cash provided by (used in) continuing investing activities		9,244	(35,086)
Net cash used in discontinued investing activities	4	–	(164)
Net cash provided by (used in) investing activities		9,244	(35,250)
Increase (decrease) in cash and cash equivalents during the period		(14,243)	175,414
Balance of cash and cash equivalents, beginning of period		371,299	246,634
Balance of cash and cash equivalents, end of period		$ 357,056	$ 422,048
Represented by:			
Continuing operations		$ 357,056	$ 31,548
Discontinued operations		–	390,500
		$ 357,056	$ 422,048

(The accompanying notes are an integral part of these condensed consolidated interim financial statements.)

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended May 31, 2013 (unaudited)

Note 1: General Information

AGF Management Limited (AGF or the Company) is a limited liability company incorporated and domiciled in Canada under the *Business Corporations Act* (Ontario). The address of its registered office and principal place of business is Toronto-Dominion Bank Tower, 66 Wellington Street West, Toronto, Ontario.

The Company is an integrated, global wealth management corporation whose principal subsidiaries provide investment management for mutual funds, institutions and corporations, as well as high-net-worth clients. The Company conducts the management and distribution of mutual funds in Canada under the brand names AGF, Acuity, Elements and Harmony (collectively, AGF Investments).

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on June 25, 2013.

Note 2: Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including International Accounting Standard 34 (IAS 34), Interim Financial Reporting. The accounting policies in these condensed consolidated interim financial statements are consistent with those disclosed in the Company's annual consolidated financial statements for the year ended November 30, 2012. The condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

Note 3: Investments and Investment in Associated Company

(a) The following table presents a breakdown of investments:

(in thousands of Canadian dollars)	**May 31, 2013**	**November 30, 2012**
Fair value through profit or loss		
AGF mutual funds and other	$ 10,571	$ 25,269
Equity securities	1,756	1,612
	12,327	26,881
Available for sale		
Equity securities	2,959	2,995
Loans and receivables		
Canadian government debt – Federal	304	301
	$ 15,590	$ 30,177

The investment in Canadian government debt is composed of a fixed-rate Treasury bond with a maturity date within one year and a credit rating of AAA.

(b) The Company holds a 31.8% investment in Smith & Williamson Holdings Limited (S&WHL), which is accounted for using the equity method. At May 31, 2013, the carrying value was $77.1 million (November 30, 2012 – $74.4 million). During the three and six months ended May 31, 2013, the Company recognized earnings of $3.3 million and $4.7 million (2012 – $2.1 million and $3.5 million) and received nil and $1.2 million in dividends (2012 – $4.2 million and $4.2 million) from S&WHL.

Note 4: Discontinued Operations

On August 1, 2012, the Company completed its sale of 100% of the shares of AGF Trust Company (AGF Trust) to B2B Bank, a subsidiary of Laurentian Bank, for cash consideration corresponding to the net book value of AGF Trust at closing of $246.3 million. The transaction also caused AGF Trust to repay subordinated indebtedness owed to AGF and redeem preferred shares held by AGF for an additional consideration of $173.5 million.

In addition, the agreement includes a contingent consideration to a maximum of $20.0 million over five years if the credit performance of AGF Trust's loan portfolio meets certain thresholds. Accordingly, a contingent consideration receivable of $5.9 million was recorded on the sale of AGF Trust. As at May 31, 2013, the contingent consideration receivable was $6.0 million and was included in other assets on the consolidated interim statement of financial position, representing management's best estimate of the fair value thereof.

For the three and six months ended May 31, 2012, the operating performance of AGF Trust has been included in the Company's consolidated statement of income (loss) as discontinued operations as follows:

(in thousands of Canadian dollars)		**Three months ended May 31, 2012**		**Six months ended May 31, 2012**
Revenue				
RSP loan securitization income, net of impairment	$	–	$	1,263
Other income		1,065		2,971
AGF Trust net interest income[1]		20,336		40,716
Total revenue		21,401		44,950
Expenses				
Selling, general and administrative		9,295		19,001
Amortization of property, equipment and computer software		209		423
Provision for AGF Trust loan losses		970		2,768
		10,474		22,192
Income before income taxes		**10,927**		**22,758**
Income tax expense				
Current[1]		5,499		8,226
Deferred		(2,592)		(2,357)
		2,907		5,869
Net income related to AGF Trust	**$**	**8,020**	**$**	**16,889**
Net income attributable to:				
Equity owners of the Company	$	8,020	$	16,889
Non-controlling interest		–		–
	$	8,020	$	16,889

[1] Adjusted for interest on inter-company subordinated debt classified as discontinued operations.

For the three and six months ended May 31, 2012, the Company incurred $1.0 million in expenses related to the sale of AGF Trust.

The change in stock options related to AGF Trust during the six months ended May 31, 2013 and 2012 is summarized as follows:

Six months ended	May 31, 2013		May 31, 2012	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Class B Non-Voting share options related to AGF Trust				
Balance, beginning of the period	393,505	$ 17.63	456,750	$ 17.93
Options granted	–	–	31,505	15.87
Options expired	–	–	(10,000)	17.12
Options exercised	(39,000)	8.24	(2,850)	8.24
Balance, end of the period	354,505	$ 18.64	475,405	$ 17.87

As at May 31, 2013, AGF Trust employees did not hold any Restricted Share Units (RSU) (May 31, 2012 – 33,866).

Note 5: Acquisitions

(a) Acquisition of Acuity Funds Ltd. and Acuity Investment Management Inc.

On February 1, 2011, the Company completed its acquisition of 100% of the shares of Acuity Funds Ltd. and Acuity Investment Management Inc. (Acuity) for a purchase price of $335.5 million.

The remaining outstanding deferred cash payment and Class E exchangeable preferred shares are subject to an adjustment based on Acuity's net sales of institutional AUM between the date of acquisition and the deferred cash payment date and the redemption date of these preferred shares. As at May 31, 2013, the maximum adjustment to the acquisition consideration payable related to Acuity's net sales of institutional AUM would be an increase of $3.4 million and a decrease of nil. The Class E exchangeable preferred shares are to be settled by the issuance of a variable number of AGF Class B Non-Voting shares, the number of which is determined by reference to a fixed exchange ratio. The outstanding deferred cash payments and Class E exchangeable preferred shares are accounted for as contingently returnable consideration carried at fair value and have been classified on the consolidated interim statement of financial position as acquisition consideration payable.

As part of the consideration paid, the remaining Class B Non-Voting shares held in escrow will be released to the Acuity vendors on February 1, 2014. Dividends declared on the Class B Non-Voting shares are paid to the vendors during the escrow period. During the three months ended May 31, 2013, no Class B Non-Voting shares were released from escrow. During the six months ended May 31, 2013, 185,117 Class B Non-Voting shares were released from escrow. As at May 31, 2013, 185,119 Class B Non-Voting shares continue to be held in escrow.

On February 1, 2013, $3.9 million was paid to the Acuity vendors, consisting of $2.7 million in cash and a settlement of the Class D exchangeable preferred shares through the issuance of 107,138 Class B Non-Voting shares valued at $1.2 million. On February 1, 2012, $34.3 million was paid to the Acuity vendors, consisting of $21.0 million in cash and a settlement of the Class B and C exchangeable preferred shares through the issuance of 828,452 Class B Non-Voting shares valued at $13.3 million.

The following is a summary of the fair values of contingently returnable consideration as at May 31, 2013 and November 30, 2012:

(in thousands of Canadian dollars)	May 31, 2013	November 30, 2012
Cash payments due February 1, 2013	$ –	$ 2,718
Cash payments due February 1, 2014	4,108	3,908
Issuance of Class D exchangeable preferred shares, redeemable February 1, 2013	–	934
Issuance of Class E exchangeable preferred shares, redeemable February 1, 2014	1,795	1,242
	$ 5,903	$ 8,802
Less: current portion	5,903	3,652
	$ –	$ 5,150

During the three and six months ended May 31, 2013, $0.2 million and $1.0 million in charges (2012 – $2.0 million gain and $0.8 million in charges) were recognized related to the fair value adjustment on the acquisition consideration payable.

(b) Acquisition of Highstreet Partners Ltd.

During the six months ended May 31, 2013, the Company increased its ownership interest in Highstreet Partners Ltd. (Highstreet) from 89.4% to 100%. In the first and second quarter of 2013, the Company paid cash consideration of $3.1 million, extinguished receivables of $3.2 million and recorded a payable of $1.3 million, which was paid in June 2013. The payments were recorded as an adjustment to the non-controlling interest balance on the consolidated interim statement of financial position of $0.5 million, and to the liability for the put obligation of $6.0 million, with the remaining difference of $0.9 million and $0.2 million charged to retained earnings and income respectively. Refer to Note 11 for details regarding the put agreement.

In connection with the acquisition, the Company determined that certain Highstreet management contracts and other intangibles no longer have an indefinite life. As a result, these assets are now being amortized over their remaining expected useful lives, which have been estimated at five years. The net book values of the management contracts and other intangibles prior to the commencement of amortization were $15.1 million and $1.9 million, respectively, and the Company recorded $1.7 million related to amortization expense during the three and six months ended May 31, 2013.

Note 6: Long-term Debt

(in thousands of Canadian dollars)	May 31, 2013	November 30, 2012
Revolving term loans[1]		
Facility 1	$ –	$ –
Facility 2	124,404	124,300
Acquisition facility[1]	184,268	184,101
	$ 308,672	$ 308,401

[1] Net of transaction costs.

(a) Revolving Term Loans

Facility 1 is a syndicated revolving term loan with two Canadian chartered banks and with a maximum aggregate principal of $200.0 million (November 30, 2012 – $200.0 million). Advances under Facility 1 are made available by prime-rate loans in U.S. or Canadian dollars, under banker's acceptances (BAs) or by issuance of letters of credit. Facility 1, if not renewed, is due in full on January 28, 2015. As at May 31, 2013, AGF had not drawn against Facility 1 (November 30, 2012 – nil).

Facility 2 is a five-year revolving term loan with a maximum aggregate principal of $125.0 million. Advances under Facility 2 are made available by prime-rate loans in U.S. or Canadian dollars, under BAs or by issuance of letters of credit. Facility 2, if not renewed, is due in full on August 31, 2016. As at May 31, 2013, AGF had drawn down $125.0 million (November 30, 2012 – $125.0 million) against Facility 2 in the form of a one-month BA at an effective average interest rate of 3.0% per annum (November 30, 2012 – 3.2%).

To hedge the Company's exposure to fluctuating interest rates on its long-term debt, AGF has entered into an interest rate swap transaction with a Canadian chartered bank. The swap transaction expires in July 2016 and involves the exchange of the one-month BA rate, plus 150 basis points, to pay a fixed interest rate of 3.8%. The swap contract is designated as a cash flow hedging instrument and is used to mitigate interest expense volatility on Facility 2. As at May 31, 2013, the notional amount of the swap was $125.0 million (November 30, 2012 – $125.0 million).

As at May 31, 2013, the fair value of the derivative used to manage interest rate exposure on long-term debt was $3.4 million (November 30, 2012 – $4.4 million) and is recorded as a liability on the consolidated interim statement of financial position.

(b) Acquisition Facility

The acquisition facility was originally arranged on January 28, 2011, to partially fund the acquisition of Acuity, and consists of a one-time drawdown of $185.0 million. The facility must be fully repaid by January 28, 2015, and is not renewable. Advances under the facility are made available by way of Canadian-dollar prime-rate loans or Canadian-dollar BAs. As at May 31, 2013, AGF had drawn $185.0 million (November 30, 2012 – $185.0 million) against the facility in the form of a one-month BA at an effective average interest rate of 3.0% per annum (November 30, 2012 – 3.2%).

Note 7: 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, 2013**			**May 31, 2012**		
(in thousands of Canadian dollars, except share amounts)	**Shares**	**Stated value**		**Shares**	**Stated value**	
Class A Voting common shares	57,600	$	–	57,600	$	–
Class B Non-Voting shares						
Balance, beginning of the period	89,057,691	$	533,684	95,406,796	$	560,838
Issued through dividend reinvestment plan	117,973		1,239	87,008		1,361
Stock options exercised	150,750		1,329	61,050		538
Issued on acquisition of Acuity	107,138		1,231	828,452		13,322
Repurchased for cancellation	(1,508,565)		(9,063)	(262,240)		(1,543)
Balance, end of the period	87,924,987	$	528,420	96,121,066	$	574,516

(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). AGF relies on an automatic purchase plan during the normal course issuer bid. The automatic purchase plan allows for purchases by AGF of its Class B Non-Voting shares during certain pre-determined black-out periods, subject to certain parameters. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. 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 6,729,228 shares through to January 31, 2014. During the three and six months ended May 31, 2013, 1,508,565 Class B Non-Voting shares were repurchased at a cost of $17.1 million and the excess paid of $8.0 million over the recorded capital stock value of the shares repurchased for cancellation was charged to retained earnings. No shares were repurchased during the three months ended May 31, 2012. During the six months ended May 31, 2012, 262,240 Class B Non-Voting shares were repurchased at a cost of $4.1 million and the excess paid of $2.6 million over the recorded capital stock value of the shares repurchased for cancellation was charged to retained earnings.

Note 8: Accumulated Other Comprehensive Income (Loss)

(in thousands of Canadian dollars)		Foreign currency translation		Available for sale securities		Cash flow hedge		Discontinued operations		Total
Opening composition of accumulated other comprehensive income at November 30, 2011										
Accumulated other comprehensive income (loss)	$	50	$	3,306	$	(4,772)	$	13,635	$	12,219
Income taxes		(6)		(485)		1,193		(4,061)		(3,359)
Balance, November 30, 2011		44		2,821		(3,579)		9,574		8,860
Transactions during the year ended November 30, 2012										
Other comprehensive income (loss)		(723)		(41)		674		(13,635)		(13,725)
Income tax recovery (expense)		6		53		(107)		4,061		4,013
Balance, November 30, 2012		(673)		2,833		(3,012)		–		(852)
Transactions during the period ended May 31, 2013										
Other comprehensive income (loss)		(754)		980		997		–		1,223
Income tax expense		–		(135)		(264)		–		(399)
Balance, May 31, 2013	$	(1,427)	$	3,678	$	(2,279)	$	–	$	(28)

All items presented in other comprehensive income (loss) will be reclassified to the consolidated statement of income (loss) in subsequent periods.

Note 9: Fair Value Adjustments and Other Income (Loss)

	Three months ended May 31,			
(in thousands of Canadian dollars)		**2013**		**2012**
Fair value adjustment related to investment in AGF mutual funds (Note 3)	$	473	$	(1,249)
Fair value adjustment related to acquisition consideration payable (Note 5(a))		(89)		2,251
Fair value adjustment related to put agreement with non-controlling shareholders (Note 11(c))		386		(1,528)
Interest income and other		4,917		597
	$	5,687	$	71

	Six months ended May 31,			
(in thousands of Canadian dollars)		**2013**		**2012**
Fair value adjustment related to investment in AGF mutual funds (Note 3)	$	668	$	(573)
Fair value adjustment related to acquisition consideration payable (Note 5(a))		(800)		(25)
Fair value adjustment related to put agreement with non-controlling shareholders (Note 11(c))		677		(2,624)
Interest income and other		6,772		813
	$	7,317	$	(2,409)

During the three and six months ended May 31, 2013, $3.7 million of one-time other income was recognized in interest income and other.

Note 10: Expenses by Nature

(in thousands of Canadian dollars)	Three months ended May 31, 2013		2012	
Selling, general and administrative				
Employee benefit expense	$	27,285	$	25,396
Sales and marketing		3,716		3,358
Information technology and facilities		5,622		6,654
Professional fees		4,067		4,438
Fund absorption and other fund costs		6,224		6,780
Other		983		303
	$	47,897	$	46,929

(in thousands of Canadian dollars)	Six months ended May 31, 2013		2012	
Selling, general and administrative				
Employee benefit expense	$	54,655	$	51,314
Sales and marketing		5,818		5,745
Information technology and facilities		11,505		11,666
Professional fees		7,917		9,495
Fund absorption and other fund costs		10,596		9,872
Other		1,549		2,004
	$	92,040	$	90,096

Note 11: Stock-based Compensation and Other Stock-based Payments

(a) Stock Option Plans

AGF has established stock option plans for senior employees. Under the plans, an additional maximum of 3,435,684 Class B Non-Voting shares could have been granted as at May 31, 2013 (2012 – 4,345,524). 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, excluding those related to AGF Trust (refer to Note 4), during the six months ended May 31, 2013 and 2012 is summarized as follows:

Six months ended	May 31, 2013 Options		Weighted average exercise price	May 31, 2012 Options		Weighted average exercise price
Class B Non-Voting share options, excluding AGF Trust						
Balance, beginning of the period	4,933,339	$	15.33	4,942,679	$	17.47
Options granted	649,061		11.38	469,750		15.87
Options forfeited	(130,739)		24.32	(189,508)		19.28
Options expired	–		–	(455,900)		17.05
Options exercised	(111,750)		8.24	(58,200)		8.21
Balance, end of the period	5,339,911	$	15.02	4,708,821	$	17.39

During the three months ended May 31, 2013, nil stock options were granted (2012 – nil) and compensation expense and contributed surplus of $0.4 million (2012 – $0.3 million) was recorded. During the six months ended May 31, 2013, 649,061 stock options were granted (2012 – 469,750) and compensation expense and contributed surplus of $0.8 million (2012 – $0.6 million) were recorded. The fair value of options granted during the six months ended May 31, 2013 has been estimated at $1.64 per share (2012 – $3.10) 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, 2013 and 2012:

Six months ended	May 31, 2013	May 31, 2012
Risk-free interest rate	1.5%	1.3%
Expected dividend yield	9.6%	6.8%
Five-year historical-based expected share price volatility	41.9%	41.8%
Option term	5.0 years	5.0 years

(b) Other Stock-based Compensation

Other stock-based compensation includes RSU, Performance Share Units (PSU), Deferred Share Units (DSU), and Partners Incentive Plan (PIP). Compensation expense for the three and six months ended May 31, 2013 related to these share units was $2.2 million and $4.9 million (2012 – $0.4 million and $0.1 million recovery). As at May 31, 2013, the Company has recorded a $10.1 million (2012 – $7.6 million) liability related to other stock-based compensation.

The change in share units of RSU and PSU, excluding those related to AGF Trust (refer to Note 4), during the six months ended May 31, 2013 and 2012 is as follows:

Six months ended	May 31, 2013	May 31, 2012
	Number of share units	Number of share units
Outstanding, beginning of the period		
Non-vested	822,105	319,799
Issued		
Initial grant	540,627	589,056
In lieu of dividends	56,729	21,973
Settled in cash	(9,496)	(406)
Forfeited and cancelled	(13,738)	(118,930)
Outstanding, end of the period	1,396,227	811,492

(c) Put Agreement with Non-controlling Shareholders

During the six months ended May 31, 2013, the Company settled the liability related to the put agreement with non-controlling shareholders of one of its subsidiaries in connection with the purchase of the remaining non-controlling interest. As at November 30, 2012, the put liability was $6.7 million. Prior to the final settlement of the liability, in the three and six months ended May 31, 2013, the Company recorded a gain of $0.4 million and $0.7 million (2012 – $1.5 million and $2.6 million loss) related to the change in the fair value of the put agreement. Refer to Note 5 for details regarding the acquisition.

Note 12: Income Taxes

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated effective tax rate for the six months ended May 31, 2013 was 87.8% (2012 – 28.6%). Excluding the tax contingencies recorded for the Canada Revenue Agency (CRA) transfer pricing audit discussed in Note 16, the estimated effective tax rate for the six months ended May 31, 2013 was 25.8% (2012 – 26.5%).

The income tax expense related to income from discontinued operations for the six months ended May 31, 2012 was $5.9 million.

Note 13: Earnings per Share

(in thousands of Canadian dollars, except per share amounts)	Three months ended May 31, 2013	Three months ended May 31, 2012	Six months ended May 31, 2013	Six months ended May 31, 2012
Numerator				
Net income (loss) for the period from continuing operations attributable to the equity owners of the Company	$ (10,422)	$ 16,722	$ 5,196	$ 33,987
Net income for the period from discontinued operations attributable to the equity owners of the Company	–	7,050	–	15,919
Net income (loss) for the period attributable to the equity owners of the Company	(10,422)	23,772	5,196	49,906
Denominator				
Weighted average number of shares – basic	88,880,598	96,143,964	89,052,985	95,904,625
Dilutive effect of employee stock options	514,638	591,345	414,437	639,597
Weighted average number of shares – diluted	89,395,236	96,735,309	89,467,422	96,544,222
Basic earnings (loss) per share				
Continuing operations	$ (0.12)	$ 0.17	$ 0.06	$ 0.35
Discontinued operations	–	0.08	–	0.17
	$ (0.12)	$ 0.25	$ 0.06	$ 0.52
Diluted earnings (loss) per share				
Continuing operations	$ (0.12)	$ 0.17	$ 0.06	$ 0.35
Discontinued operations	–	0.08	–	0.17
	$ (0.12)	$ 0.25	$ 0.06	$ 0.52

Note 14: Dividends

The dividends paid, including dividends reinvested, in the three and six months ended May 31, 2013 were $24.1 million and $48.2 million, compared to $26.0 million and $51.8 million in 2012. On June 25, 2013, the Board of Directors of AGF declared a quarterly dividend on both the Class A Voting common shares and Class B Non-Voting shares of the Company of $0.27 per share in respect of the three months ended May 31, 2013, amounting to a total dividend of approximately $23.8 million. These condensed consolidated interim financial statements do not reflect this dividend payable.

Note 15: Related Party Transactions

The Company is controlled by Blake C. Goldring, Chairman and Chief Executive Officer of AGF, through his indirect ownership of all the voting shares of Goldring Capital Corporation, which owns 80% of the Company's Class A Voting common shares. The remaining 20% of the Class A Voting common shares are held by the Vice-Chairman of AGF, who is also a Director.

The remuneration of Directors and other key management personnel of AGF is as follows:

(in thousands of Canadian dollars)	Three months ended May 31, 2013	Three months ended May 31, 2012	Six months ended May 31, 2013	Six months ended May 31, 2012
Salaries and other short-term employee benefits	$ 1,252	$ 1,466	$ 2,495	$ 2,867
Share-based payments	647	456	1,723	1,014
	$ 1,899	$ 1,922	$ 4,218	$ 3,881

Note 16: Contingencies

In February 2013, the Company received a proposal letter from the CRA relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary, which proposed to increase the Company's taxes payable for its 2005, 2006 and 2007 fiscal years, respectively.

Subsequent to receiving the proposal letter, the Company has had discussions with the CRA and has been informed about a forthcoming Notice of Reassessment (NOR) to be issued. Although the NOR has not yet been received, it is estimated that the NOR will increase the Company's taxes payable by $10.0 million, $10.5 million and $15.3 million (before the application of any interest or transfer pricing penalties) for its 2005, 2006 and 2007 fiscal years, respectively.

The Company strongly disagrees with the CRA's position and will respond to any forthcoming NOR with which it does not agree. The Company believes its tax filing positions continue to be reasonable based on its transfer pricing methodology, and the Company is contesting the CRA's position and any related transfer pricing penalty. However, to reflect the uncertainties of the CRA's appeals process, and based on the information provided by the CRA to date and the imminent receipt of the NOR, the Company has recorded a tax provision of $25.9 million related to this matter in the second quarter of 2013. The Company believes it is likely that the CRA will reassess its tax returns for subsequent years on a similar basis and that this may result in future cash payments on receipt of the reassessments. Upon receipt of the NOR, any decision to contest the NOR will result in the Company being required to pay 50% of the federal amount reassessed although the ultimate outcome may differ from the amount reassessed. The amount of tax provision recorded on the Consolidated Interim Statement of Financial Position reflects management's best estimate of the ultimate resolution on this matter and includes an estimate for reassessments for the 2005 to 2013 fiscal years. The final result of the audit and appeals process may vary compared to the estimates and assumptions used by management in determining the Company's consolidated income tax provision and in valuing its income tax assets and liabilities. Depending on the ultimate outcome of any such audit and appeals process, there may be a material impact on the Company's financial position, results of operations and cash flows.

The Company has been accepted by the CRA into a Bilateral Advance Pricing Arrangement (BAPA) program between Canada and the relevant tax authorities to establish the appropriate transfer pricing methodologies for the tax years 2009 through 2016.

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.