AGF Management Limited

# Third Quarter Report

FOR THE NINE MONTHS ENDED AUGUST 31, 2003

What are you doing after work?®

# dear fellow shareholders

AGF began to turn the corner with the gradual upswing of a number of key financial measures for the three months ended August 31, 2003. Revenue, net income, cash flow from operations and mutual fund assets under management are all up from the second quarter of fiscal 2003, while the company continued its focused effort to control costs.

AGF reported cash flow from operations (before net change in non-cash balances related to operations) of $55.8 million, or $0.60 per share diluted for the three months ended August 31, 2003, compared with $63.9 million or $0.70 per share diluted for the same period last year. Cash flow from operations was up 9.9% from $50.8 million in the second quarter ended May 31, 2003.

As a result of strong free cash flow, AGF paid down $46.8 million of long-term debt during the three months ended August 31, 2003, bringing the total amount of debt repaid for the fiscal year to date to $77.8 million.

AGF also raised the quarterly dividend from $7\frac{1}{2}$ cents to 8 cents per share, the second dividend increase of the year, bringing the total increase year-to-date to 23.1%.

Shortly after the end of the quarter, AGF launched its new Canadian value platform, led by award-winning fund manager Keith Graham. Mr. Graham is now portfolio manager on the newly-named AGF Canadian Real Value Fund and AGF Canadian Real Value Balanced Fund.

AGF has trimmed costs and strengthened its balance sheet despite persistent market challenges in the last few quarters. We remain committed to having one of the strongest and most comprehensive independent fund families across all investment styles. And we will continue to grow our business and create long-term value for our shareholders as we pursue our vision of being a global company with a Canadian home.

**Blake C. Goldring, CFA**
**President and Chief Executive Officer**
**September 24, 2003**

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

Management's Discussion and Analysis ("MD&A") presents an analysis of the financial condition of AGF Management Limited and its subsidiaries (collectively referred to as "AGF" or the "Corporation") as at August 31, 2003 compared with November 30, 2002, and the results of operations for the three and nine months ended August 31, 2003 compared with the corresponding periods of 2002. This MD&A should be read in conjunction with the MD&A included in the Corporation's 2002 Annual Report and with the MD&A in the 2003 First and Second Quarter Reports.

## Summary of Consolidated Operations

### Selected Consolidated Financial Results

($ MILLIONS)

| | Three months ended August 31 | | Nine months ended August 31 | |
|---|---|---|---|---|
| | 2003 | **2002** | 2003 | **2002** |
| **Total revenue** | $ 147.4 | **$ 163.8** | $ 446.9 | **$ 505.4** |
| **Cash flow from operations**[1] | $ 55.8 | **$ 63.9** | $ 158.4 | **$ 209.5** |
| **EBITDA**[2] | $ 72.4 | **$ 79.9** | $ 220.8 | **$ 251.8** |
| **Net income** | $ 21.8 | **$ 30.7** | $ 69.8 | **$ 101.6** |
| **Per Share Amounts - Diluted** | | | | |
| **Cash flow from operations**[1,2] | $ 0.60 | **$ 0.70** | $ 1.71 | **$ 2.28** |
| **Earnings per share** | $ 0.23 | **$ 0.34** | $ 0.75 | **$ 1.11** |

1 CASH FLOW FROM OPERATIONS BEFORE NET CHANGE IN NON-CASH BALANCES RELATED TO OPERATIONS

2 CASH FLOW FROM OPERATIONS PER SHARE AND EBITDA (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION) ARE NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) FINANCIAL MEASURES. MANAGEMENT BELIEVES THAT SHAREHOLDERS AND INVESTMENT ANALYSTS FIND THESE MEASURES HELPFUL IN ANALYZING AGF RESULTS. CASH FLOW FROM OPERATIONS PER SHARE HAVE BEEN COMPUTED USING THE WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING SIMILAR TO THE EPS CALCULATIONS.

The Corporation believes it is more meaningful to focus on cash flow from operations and EBITDA for the purpose of analyzing period-over-period performance. Cash flow from operations (before net change in non-cash balances related to operations) amounted to $55.8 million ($0.60 per share diluted) for the three months ended August 31, 2003 as compared with $63.9 million ($0.70 per share diluted) in the comparable period of the prior year, a decrease of $8.1 million or 12.7%. EBITDA was $72.4 million for the three months ended August 31, 2003, a decrease of 9.4% from the same period in fiscal 2002. Consolidated net income decreased 29.1% to $21.8 million for the three months ended August 31, 2003 as compared to $30.7 million a year ago. Diluted earnings per share were $0.23 for the three months ended August 31, 2003, versus $0.34 per share in the same period of last year.

For the nine months ended August 31, 2003, cash flow from operations was $158.4 million ($1.71 per share diluted) compared with $209.5 million ($2.28 per share diluted) recorded in the same period of the prior year, a decrease of $51.1 million or 24.4%. EBITDA was $220.8 million for the nine months ended August 31, 2003, representing a decrease of 12.3%

from the same period in fiscal 2002. Consolidated net income decreased 31.3% to $69.8 million for the nine months ended August 31, 2003 as compared to $101.6 million a year ago. Diluted earnings per share were $0.75 for the nine months ended August 31, 2003, versus $1.11 per share in the same period of the prior year. Net income for the nine months ended August 31, 2003 included an after-tax capital gain of $10.9 million recorded in the first quarter (see the MD&A included in the Corporation's 2003 First Quarter Report for additional details). This amount is included in the AGF consolidated financial statements segment information note as "Other".

The declines in cash flow, EBITDA and net income for the three and nine months ended August 31, 2003, are predominately due to the decline in mutual fund assets under management from the corresponding periods of 2002. This is discussed in more detail in the Wealth Management Operations section of the MD&A.

### Change in Accounting Policy

On December 1, 2002, the Corporation adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" for stock options granted on or after that date. Section 3870 requires the disclosure of pro-forma net income and earnings per share, as if the Corporation had applied the fair value-based method of accounting for stock-based compensation. Under this method, the fair value of stock options is determined on their grant date and recorded as compensation expense over the period that the stock options vest. As no stock options were granted during the period, no pro-forma compensation expense has been recorded for the nine months ended August 31, 2003.

### Seasonality

Since a high proportion of the Corporation's revenue is based on the daily value of mutual fund assets under management, the Corporation is not subject to significant seasonal swings in earnings. The Corporation generally experiences higher sales during the months of January to March, due to the RSP season, however the immediate impact of the level of sales on total assets under management ("AUM") is not nearly as significant as the potential movement caused by changes in market value. As a result, the Corporation's revenue is highly correlated to the market value of mutual fund AUM.

### Review of Operating Segments

Beginning December 1, 2002, the Corporation commenced reporting on three business segments: wealth management operations, fund administration operations and trust company operations. The wealth management segment provides investment management and advisory services and is responsible for the management and distribution of the AGF investment products and services, including retail mutual fund operations and high-net-worth client investment advisory services. Fund administration offers fund administrative services and transfer agency solutions to institutional clients in Canada and the U.K., including the AGF mutual funds. The trust company segment offers a wide range of trust services and products including GICs, mortgages, investment loans and RRSP loans.

### Wealth Management Operations

Revenue of the wealth management operations segment is comprised of the following:

(IN MILLIONS OF DOLLARS)

| Three months ended August 31 | 2003 Amount | 2003 % of total | 2002 Amount | 2002 % of total | % change |
|---|---|---|---|---|---|
| Net management and advisory fees | $ 103.8 | 85.0% | $ 121.1 | 83.5% | (14.3)% |
| Deferred sales charges | 9.0 | 7.4% | 12.8 | 8.8% | (29.7)% |
| Administration fees and other revenue | 9.2 | 7.5% | 10.5 | 7.2% | (12.4)% |
| Investment income | 0.1 | 0.1% | 0.6 | 0.4% | (83.3)% |
| | $ 122.1 | 100.0% | $ 145.0 | 100.0% | (15.8)% |

(IN MILLIONS OF DOLLARS)

| Nine months ended August 31 | 2003 Amount | 2003 % of total | 2002 Amount | 2002 % of total | % change |
|---|---|---|---|---|---|
| Net management and advisory fees | $ 302.2 | 84.1% | $ 392.6 | 85.8% | (23.0)% |
| Deferred sales charges | 31.4 | 8.8% | 31.3 | 6.8% | 0.3% |
| Administration fees and other revenue | 24.9 | 6.9% | 32.5 | 7.2% | (23.4)% |
| Investment income | 0.8 | 0.2% | 1.3 | 0.3% | (38.5)% |
| | $ 359.3 | 100.0% | $ 457.7 | 100.0% | (21.5)% |

Management and advisory fee revenue, (net of distribution fees paid to limited partnerships and other third-party financing entities of $4.4 million ($5.5 million in 2002)), decreased 14.3% to $103.8 million for the three months ended August 31, 2003 compared to $121.1 million in the same period in 2002. For the nine months ended August 31, 2003, net management and advisory fee revenue decreased 23.0% to $302.2 million as compared to $392.6 million in the same period in 2002. The amount of management and advisory fees is dependent on the level and composition of AUM. Under the management and investment advisory contracts between the Corporation and each of the mutual funds it manages, the Corporation is entitled to monthly fees based on a specified percentage of the average daily net asset value of the respective fund.

The following table illustrates the composition of the changes in mutual fund AUM during the three and nine months ended August 31, 2003 and August 31, 2002:

(IN MILLIONS OF DOLLARS)

| | Three months ended August 31 | | | Nine months ended August 31 | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % change | 2003 | 2002 | % change |
| Mutual fund AUM, at May 31 | $ 21,872 | $ 28,239 | (22.5)% | | | |
| Mutual fund AUM, at November 30 | | | | $ 23,549 | $ 27,827 | (15.4)% |
| Gross sales of mutual funds | 459 | 642 | (28.5)% | 1,675 | 3,468 | (51.7)% |
| Redemptions of mutual funds | (939) | (1,114) | (15.7)% | (3,009) | (3,381) | (11.0)% |
| Net mutual fund sales (redemptions) | (480) | (472) | | (1,334) | 87 | |
| Market appreciation (depreciation) of fund portfolios | 1,595 | (3,354) | | 772 | (3,501) | |
| Mutual fund AUM, at August 31 | $ 22,987 | $ 24,413 | (5.8)% | $ 22,987 | $ 24,413 | (5.8)% |
| Average daily mutual fund AUM for the period | $ 22,401 | $ 25,513 | (12.2)% | $ 21,932 | $ 27,650 | (20.7)% |

Mutual fund AUM increased 5.1% during the three months ended August 31, 2003. Average daily mutual fund AUM in the third quarter of fiscal 2003 were 12.2% lower than in the third quarter of 2002, directly contributing to a 14.3% decline in net management and advisory fee revenue from the same period a year ago.

During the nine months ended August 31, 2003, mutual fund AUM decreased by 2.4%. Average daily mutual fund AUM in the first three quarters of fiscal 2003 were 20.7% lower than in the corresponding period of 2002, directly contributing to the 23.0% decline in net management and advisory fee revenue compared to the same period a year ago. The decline in net mutual fund sales for the nine months ended August 31, 2003 from the prior year for both the Corporation and the mutual fund industry is primarily due to the decline in gross sales. The level of mutual fund redemptions has not been a material factor, as the level of redemptions has not changed significantly versus the prior year.

The second and third quarters of fiscal 2003 saw world equity markets stage a strong recovery. During the nine months ended August 31, 2003, the S&P 500 Index rose 9.0%, the NASDAQ Index rose 22.8% and the S&P/TSX Composite Index rose 16.1%. During the same period, the Canadian dollar experienced some of its strongest gains in years, rising 13.0% from $0.6391 to $0.7220 U.S. Appreciation of the Canadian dollar has reduced the value of foreign denominated investments held by Canadian investors. The impact of the U.S. dollar decline relative to the Canadian dollar on the market value of AGF mutual funds since November 30, 2002, has been a reduction in AUM of approximately $870 million.

The Corporation's equity mutual funds have benefited from the recent improvement in global stock markets, resulting in market value appreciation of $1.60 billion during the three months ended August 31, 2003, compared to market value depreciation of $3.35 billion in the same period a year ago. For the nine months ended August 31, 2003, total market value appreciation for the AGF mutual funds was $0.77 billion, compared to depreciation of $3.50 billion in the same period a year ago.

The total market value of assets managed by AGF for high-net-worth individuals and institutional clients were as follows:

| | |
|---|---|
| As at August 31, 2002 | $5.3 billion |
| As at November 30, 2002 | $5.0 billion |
| As at August 31, 2003 | $5.2 billion |

Not having experienced the net redemptions levels seen in the retail mutual fund industry, these assets under management continue to provide the Corporation with a stable revenue stream.

The Corporation receives Deferred Sales Charges ("DSC") upon redemption of securities sold on the contingent DSC or "back end" commission basis for which the Corporation financed the selling commissions paid to the dealer. The DSC is generally 5.5% of the original subscription price of the funds purchased if the funds are redeemed within the first two years and declines to zero after seven years. DSC decreased 29.7% from $12.8 million for the three months ended August 31, 2002 to $9.0 million for the three months ended August 31, 2003, reflecting lower levels of gross redemptions. For the nine months ended August 31, 2003, DSC increased 0.3% to $31.4 million from $31.3 million for the same period in 2002 as a result of the higher redemption rate experienced in the first quarter of fiscal 2003.

Expenses for the wealth management operations segment were as follows:

(IN MILLIONS OF DOLLARS)

| | Three months ended August 31 | | | Nine months ended August 31 | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % change | 2003 | 2002 | % change |
| **Selling, general and administrative** | $ 20.2 | $ 23.3 | (13.3)% | $ 62.4 | $ 67.2 | (7.1)% |
| **Trailing commissions** | 25.5 | 31.3 | (18.6)% | 76.1 | 102.0 | (25.4)% |
| **Investment advisory fees** | 8.0 | 10.6 | (24.5)% | 23.1 | 35.5 | (34.9)% |
| **Amortization of DSC** | 29.5 | 28.1 | 4.8% | 87.1 | 86.0 | 1.3% |
| **Amortization of customer contracts and relationships and investment advisory contracts** | 3.0 | 3.0 | 0.0% | 9.0 | 9.0 | 0.0% |
| **Amortization of property, equipment and other intangible assets** | 2.8 | 3.0 | (6.7)% | 8.2 | 8.7 | (5.7)% |
| **Writedown of short-term investments** | – | – | – | 0.6 | – | – |
| | $ 89.0 | $ 99.3 | (10.4)% | $ 266.5 | $ 308.4 | (13.6)% |

Selling, general and administrative expenses ("SG&A") for the Corporation's wealth management operations segment decreased by $3.1 million or 13.3% for the three months ended August 31, 2003 compared to the same period in 2002. For the nine months ended August 31, 2003, SG&A expenses decreased by $4.8 million or 7.1% compared to the same period in 2002.

Trailing commissions paid to investment dealers are dependent on total AUM levels as well as the proportion of mutual fund AUM sold on a front-end versus back-end commission basis and the proportion of equity fund AUM versus fixed income fund AUM. Trailing commissions decreased 18.6% to $25.5 million for the three months ended August 31, 2003 from $31.3 million for the three months ended August 31, 2002. Trailing commissions as a percentage of average mutual fund AUM decreased to 0.455% for the three months ended August 31, 2003 from 0.491% in the comparable 2002 period. For the nine months ended August 31, 2003, trailing commissions decreased 25.4% to $76.1 million from $102.0 million for the comparable 2002 period. Trailing commissions as a percentage of average mutual fund AUM decreased to 0.462% for the nine months ended August 31, 2003 from 0.492% for the comparable 2002 period.

Investment advisory fees paid to external advisors are declining primarily as a result of an increasing proportion of mutual fund assets being managed internally. Investment advisory fees decreased 24.5% to $8.0 million for the three months ended August 31, 2003 from $10.6 million in the three months ended August 31, 2002. Investment advisory fees decreased 34.9% to $23.1 million for the nine months ended August 31, 2003 from $35.5 million in the nine months ended August 31, 2002.

Amortization of DSC increased by 4.8% to $29.5 million for the three months ended August 31, 2003 from $28.1 million for the three months ended August 31, 2002. For the nine months ended August 31, 2003, amortization of DSC increased by 1.3% to $87.1 million from $86.0 million for the nine months ended August 31, 2002. Currently, the Corporation internally finances all selling commissions paid. These selling commissions have been capitalized and are amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the wealth management operations were $68.4 million for the three months ended August 31, 2003, a decrease of 14.3% from $79.8 million for the same period of fiscal 2002. EBITDA for the nine months ended August 31, 2003 were $197.7 million, a decrease of 21.9% from $253.0 million in the corresponding period of 2002.

## Fund Administration Operations

Revenue of the fund administration operations segment is comprised of the following:

(IN MILLIONS OF DOLLARS)

| | Three months ended August 31 | | Nine months ended August 31 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Canadian operations - Unisen** | $ 24.6 | $ 9.3 | $ 80.2 | $ 26.0 |
| **U.K. operations - Investmaster** | 4.2 | 2.7 | 11.3 | 4.8 |
| | $ 28.8 | $ 12.0 | $ 91.5 | $ 30.8 |

Revenue for the fund administration business, operated in Canada as Unisen Inc. ("Unisen"), increased from $9.3 million and $26.0 million for the three and nine months ended August 31, 2002 respectively to $24.6 million and $80.2 million for the three and nine months ended August 31, 2003. The increases are attributable to acquisitions completed in 2002 and the assumption by Unisen, on December 1, 2002, of the responsibility for providing unitholder record keeping and fund valuation services to the AGF Group of Funds.

The fund administration business segment operates in the U.K. through the Corporation's wholly-owned subsidiary, Investmaster Group Limited ("Investmaster"). Investmaster develops and licenses customized investment industry software. Investmaster's revenue growth prospects are strong as it leverages new products that have been well received in the market place and continues to grow its customer base. During the second quarter of fiscal 2003, Investmaster completed the acquisition of Consort Information Systems Limited ("CISL"). Substantial cost reductions are expected with the integration of the two operations over the next two years.

Expenses for the fund administration operations segment were as follows:

(IN MILLIONS OF DOLLARS)

| | Three months ended August 31 | | Nine months ended August 31 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Selling, general and administrative** | $ 26.8 | $ 12.5 | $ 84.2 | $ 30.0 |
| **Amortization of customer contracts and relationships** | 1.5 | 0.9 | 4.7 | 2.1 |
| **Amortization of property, equipment and other intangible assets** | 2.1 | 0.6 | 5.4 | 1.5 |
| **Integration costs** | – | 0.0 | – | 1.0 |
| | $ 30.4 | $ 14.0 | $ 94.3 | $ 34.6 |

SG&A expenses were $26.8 million and $84.2 million for the three and nine months ended August 31, 2003, increasing $14.3 million and $54.2 million respectively, as compared to the corresponding periods in fiscal 2002. These increases reflect the acquisitions and new business in the fund administration operations segment as discussed above.

The increase in amortization of customer contracts and relationships was due to acquisitions completed in 2002, adding $60.2 million to the carrying value of customer contracts and relationships. These intangible assets are being amortized over periods ranging from seven to ten years.

Amortization of property, equipment and other intangible assets for the three and nine months ended August 31, 2003 includes the amortization (over a period of five years) of software acquired through the Jewelstone Systems Inc. and CISL acquisitions. These acquisitions resulted in the addition of software with carrying values of $9.3 million and $9.5 million respectively. The increase in amortization of property and equipment in fiscal 2003 is also attributable to higher capital spending related to Unisen's new headquarters in Mississauga, Ontario and a recent upgrade of hardware technology during the third quarter of fiscal 2003.

EBITDA for the fund administration operations were $2.1 million for the three months ended August 31, 2003 compared to a loss of $0.5 million in the same period of fiscal 2002. EBITDA for the nine months ended August 31, 2003 were $7.4 million, an increase of $7.5 million from the $0.1 million loss which occurred in the corresponding period of 2002.

### Trust Company Operations

AGF Trust Company (the "Trust Company") recorded net income after-tax of $1.3 million for the three months ended August 31, 2003, compared with $1.0 million for the same period last year. Net income after tax was $2.0 million for the nine months ended August 31, 2003, compared with net income of $0.6 million for the same period last year.

The Trust Company's assets have declined 4.9% in the third quarter of 2003 as expected, with the cash balance decreasing as deposits run off, RSP loans outstanding decrease and other loan balances increase. As at August 31, 2003, the value of the RSP loan portfolio was $177.4 million, representing an increase of $66.1 million since November 30, 2002. Net investment income for the three months ended August 31, 2003 was $3.8 million compared with $2.6 million for the same period last year. This increase is a reflection of the higher asset levels at the Trust Company. Net investment income for the first nine months of the year was $9.8 million compared with $5.4 million in the same period last year.

The provision for loan losses for the three months ended August 31, 2003 was $0.6 million compared with $0.1 million for the same period last year. This increase reflects higher asset balances and current credit risk in the loan portfolios. The provision for loan losses for the nine months ended August 31, 2003 was $1.6 million, an increase of $0.4 million from the same period last year.

The Trust Company's financial position and balance sheet remain sound. Total assets have grown to $529.2 million at August 31, 2003, an increase of 3.4% or $17.5 million since November 30, 2002. The assets to capital multiple at August 31, 2003 stood at 13.2 times, down from 16.3 times at November 30, 2002, and well within the permitted multiple of 17.5 times.

### Other Corporate Expenses

Interest expense (included in the AGF consolidated financial statements segment information note under "Other") increased to $2.3 million for the three months ended August 31, 2003 from $2.1 million in the same period in 2002. Interest expense for the nine months ended August 31, 2003 was $7.5 million, compared with $6.8 million for the same period in 2002, an increase of 11.3%. These increases are a result of higher outstanding loan balances compared to the same periods in 2002. The Corporation paid down $46.8 million of long-term debt during the three months ended August 31, 2003 and $77.8 million during the nine months ended August 31, 2003.

Except for the interest rate swap arrangements which fixed the interest rates on an average of $43.4 million of the outstanding loan balance at 5.53% per annum, interest rates paid on the bank loans were floating based on the prevailing bankers' acceptance rates.

The Corporation's effective income tax rates for the three and nine months ended August 31, 2003 were 28.3% and 27.8% respectively, as compared to the statutory rate of 36.7%. The reduction in the effective income tax rates related primarily to tax rate differentials on earnings of certain of the Corporation's foreign subsidiaries.

As at August 31, 2003, the future income tax liability was $258.0 million, as compared with $272.2 million at November 30, 2002. Approximately half of the future income tax liability balance arose from the deduction for income tax purposes of the full amount of selling commissions paid as compared with the amortization of such selling commissions for accounting purposes over six to eight years. The remaining future income tax liability balance relates primarily to the impact of business combinations where the accounting values of the acquired assets and liabilities differ from their tax values.

### Consolidated Financial Position, Liquidity and Capital Resources

Consolidated assets totaled $1,928 million at August 31, 2003, down from $1,975 million at November 30, 2002, a decrease of 2.4%. Shareholders' equity increased from $888 million at November 30, 2002 to $943 million at August 31, 2003, an increase of 6.2%.

Consolidated cash and short-term investments amounted to $68.7 million as at August 31, 2003 as compared with $144.7 million at November 30, 2002. The decrease is mainly due to a $91.6 million use of cash in the Trust Company operations to fund mortgages and consumer loans (during the RSP season), net of the increase in Trust Company deposits. The Corporation's consolidated statement of cash flow for the three months ended August 31, 2003 includes a cash receipt of $6.6 million (which was accrued in the first quarter of 2003) representing a reduction in the purchase price of the acquired third-party administration business.

The Corporation's long-term debt to equity ratio improved from 0.25:1 as at November 30, 2002 to 0.16:1 as at August 31, 2003. The continuing strong free cash flow should permit continued reduction of long-term debt during the remainder of fiscal 2003.

Free cash flow (defined as cash flow from operations less selling commissions paid) was $46.8 million for the three months ended August 31, 2003, compared to $50.7 million in the same period of the prior year, a decrease of 7.7%. For the nine months ended August 31, 2003, free cash flow was $123.9 million compared to $119.9 million in the same period of the prior year, an increase of 3.3%. The Corporation's free cash flow for the nine months ended August 31, 2003 was used primarily to pay down long-term debt by $77.8 million, reduce current liabilities by $17.2 million, pay dividends in the amount of $19.7 million, purchase property, equipment and other intangible assets for $8.1 million and complete the acquisition of CISL for $7.5 million.

The Corporation has a ten-year prime rate-based revolving term loan facility to a maximum of $150.0 million of which $73.7 million was available to be drawn as at August 31, 2003. This facility will be available to meet future operational or investment needs. The Corporation anticipates that cash flow from operations, together with the available loan facility, will be sufficient in the foreseeable future to implement its business plan, finance selling commissions, satisfy regulatory capital requirements, service debt repayment obligations, meet capital spending needs and pay quarterly dividends.

## Hedging Activities

The Corporation has three interest rate swap transactions which expire between October 28, 2007 and January 27, 2008. These swaps convert the floating interest rates paid by the Corporation on $42.2 million of its outstanding bank loans into fixed interest rates averaging 5.53% per annum. The Corporation would have to pay $1.8 million to the counter-party if these swap transactions were terminated at August 31, 2003.

To hedge its exposure to fluctuating interest rates, AGF Trust Company has entered into interest rate swap transactions which expire between October 1, 2003 and January 31, 2008. At August 31, 2003, the swaps convert the interest rates paid on $266.7 million of outstanding deposits from fixed interest rates into floating interest rates. AGF Trust Company would receive $2.4 million from the counter-party if the swap transactions were terminated at August 31, 2003.

The Corporation has entered into the following derivative contracts to hedge the currency exposure in respect of its foreign investments:

- Foreign exchange forward contracts to sell U.K. £50.0 million on November 28, 2003 at an average exchange rate of 2.2732 for CDN $113.7 million; and
- A cross currency swap transaction expiring on November 29, 2004 that involves the exchange of three-month bankers' acceptance floating interest rates on CDN $3.3 million for a fixed interest rate of 0.67% per annum on JPY ¥256.0 million.

## Risk Factors

The Corporation's risk exposure from foreign exchange, interest rate and capital market movements remains substantially unchanged since the most recent fiscal year-end and readers should refer to the MD&A in the Corporation's 2002 Annual Report.

## Business Strategy

The Corporation continues to focus on strengthening its core wealth management operations. The Corporation's objective of growth in market share in the wealth management operations will be achieved by strong investment management, product enhancements, AGF brand reinforcement and strategic relationships with key distributors. To these ends, AGF recently launched its new Canadian value investment platform to complement existing growth and growth at a reasonable price investment mandates. Product offerings will be expanded across the wealth continuum to meet the needs of investors at all stages of their investment lives. The Corporation will focus on ensuring it offers the necessary products to meet the present and future needs of its customers. To better assess these needs, the Corporation has invested in a new customer relationship management system, which is considered essential to attract and retain customers.

Global initiatives will continue in the Corporation's wealth management and third-party administration business activities. The Corporation will continue to pursue global markets which management believes to have above-average growth potential.

## Outlook

For the past year the Canadian mutual fund industry has been in a state of net redemptions. Industry-wide net redemptions in the 12 months ended August 31, 2003 have totaled $5.4 billion compared to net sales of $16.4 billion in the comparable 12 month period a year earlier. However, industry net sales for both July and August 2003 were positive, being the first two consecutive months of positive industry net sales since March 2002.

In addition, the equity markets have shown two consecutive quarters of strong positive returns. It is anticipated that this strong market performance will continue to pull retail mutual fund investors off the sidelines and result in an improvement of gross sales over the next few months and a strong RSP season.

Challenges and opportunities remain ahead. As with all investment management firms, the performance of the global equity markets is a dominant factor determining the Corporation's financial performance. In recent years, AGF has taken steps to diversify revenue sources into other high growth markets and related businesses that are less subject to market fluctuations. These include the fund administration operations and expansion in the U.K. wealth management industry.

In Canada, revenue for the fund administration operations is expected to remain stable for the balance of fiscal 2003. Unisen is on target to complete its premises relocation by the end of September 2003 and to realize operational synergies and cost savings after migrating all of its transfer agency business onto the Jewelstone Unitrax system (targeted for completion at the end of fiscal 2004).

The Corporation's U.K. investments are still in the early stages of integration with newly acquired operations. As these businesses successfully combine and grow their operations, operating synergies are expected to yield stronger financial results.

Consolidated free cash flow is expected to continue to exceed operating requirements allowing management to consider additional market opportunities to grow its business and take advantage of strategies to maximize long-term shareholder value.

The trend in Canada of industry consolidation is continuing as financial services companies look to achieve greater economies of scale and access additional distribution channels. The Corporation believes it is well positioned to meet the challenges of a changing marketplace as it has embraced the concept of the wealth continuum and is taking steps to provide the services and new products to meet changing investor preferences. The Corporation will strive to increase customer awareness of AGF through additional investment in the brand, keep stringent control over expenses, deliver above-average fund performance and provide a high level of client service.

## Forward Looking Statements

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

## AGF Management Limited
## Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)

| | August 31, 2003 (UNAUDITED) | November 30, 2002 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and term deposits | $ 7,450 | $ 8,501 |
| Short-term investments | 19,671 | 19,884 |
| Accounts receivable and prepaid expenses | 57,079 | 55,911 |
| | 84,200 | 84,296 |
| Investment in associated company (note 3) | 107,039 | 35,909 |
| Other investments | 8,811 | 78,806 |
| Management contracts | 473,670 | 473,670 |
| Customer contracts, relationships and investment advisory contracts, net of accumulated amortization | 106,410 | 126,611 |
| Deferred selling commissions, net of accumulated amortization | 413,491 | 466,050 |
| Property, equipment and other intangible assets, net of accumulated amortization | 59,463 | 53,850 |
| Goodwill | 145,351 | 144,015 |
| | 1,398,435 | 1,463,207 |
| Trust Company Assets | | |
| Cash and term deposits | 41,611 | 116,324 |
| Accounts receivable and other assets | 7,401 | 7,755 |
| Investments | 3,477 | 4,855 |
| Mortgages and consumer loans | 476,755 | 382,779 |
| | 529,244 | 511,713 |
| | $ 1,927,679 | $ 1,974,920 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 30,047 | $ 52,867 |
| Long-term debt due within one year (note 5) | 41,136 | 40,369 |
| Income taxes payable | 8,664 | 8,984 |
| | 79,847 | 102,220 |
| Long-term debt (note 5) | 150,447 | 225,403 |
| Participation units | 6,157 | 6,157 |
| Future income taxes | 258,027 | 272,197 |
| Leasehold inducements | 1,520 | 1,441 |
| | 495,998 | 607,418 |
| Trust Company Liabilities | | |
| Accounts payable and accrued liabilities | 16,029 | 10,868 |
| Deposits | 473,083 | 469,068 |
| | 489,112 | 479,936 |
| Shareholders' Equity | | |
| Capital stock (note 4) | 396,307 | 390,840 |
| Retained earnings | 545,851 | 495,819 |
| Foreign currency translation adjustment | 411 | 907 |
| | 942,569 | 887,566 |
| | $ 1,927,679 | $ 1,974,920 |

## AGF Management Limited
## Consolidated Statements of Income

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

| | Three months ended August 31, 2003 | Three months ended August 31, 2002 | Nine months ended August 31, 2003 | Nine months ended August 31, 2002 |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Net management and advisory fees | $ 103,785 | $ 121,057 | $ 302,184 | $ 392,563 |
| Administration fees and other revenue | 25,231 | 22,056 | 73,930 | 62,667 |
| Deferred sales charges | 9,014 | 12,846 | 31,371 | 31,296 |
| Gain on sale of investment in associated company (note 3) | – | – | 12,758 | – |
| Investment income | 101 | 628 | 879 | 1,299 |
| | 138,131 | 156,587 | 421,122 | 487,825 |
| Trust Company interest, dividends and administration fees | 9,267 | 7,185 | 25,804 | 17,624 |
| | 147,398 | 163,772 | 446,926 | 505,449 |
| **Expenses:** | | | | |
| Selling, general and administrative | 35,058 | 36,411 | 106,178 | 98,489 |
| Trailing commissions | 25,502 | 31,345 | 76,075 | 102,046 |
| Investment advisory fees | 7,974 | 10,554 | 23,107 | 35,495 |
| Amortization of deferred selling commissions | 29,472 | 28,123 | 87,110 | 85,980 |
| Amortization of customer contracts, relationships and investment advisory contracts | 4,492 | 3,896 | 13,646 | 11,082 |
| Amortization of property, equipment and other intangible assets | 5,444 | 4,253 | 15,258 | 12,178 |
| Interest expense | 2,336 | 2,077 | 7,512 | 6,751 |
| Integration costs | – | – | – | 1,000 |
| Writedown of short-term investments | – | – | 643 | – |
| | 110,278 | 116,659 | 329,529 | 353,021 |
| Trust Company Expenses | | | | |
| Interest on deposits | 4,699 | 3,979 | 14,047 | 10,814 |
| General and administrative | 1,483 | 1,603 | 5,133 | 5,131 |
| Provision for loan losses | 569 | 112 | 1,634 | 1,214 |
| | 6,751 | 5,694 | 20,814 | 17,159 |
| | 117,029 | 122,353 | 350,343 | 370,180 |
| Income before income taxes and non-controlling interest | 30,369 | 41,419 | 96,583 | 135,269 |
| Income Taxes | | | | |
| Current | 15,188 | 14,159 | 44,333 | 38,208 |
| Future | (6,590) | (3,454) | (17,524) | (4,445) |
| | 8,598 | 10,705 | 26,809 | 33,763 |
| Net income before non-controlling interest | 21,771 | 30,714 | 69,774 | 101,506 |
| Non-controlling interest share of loss of subsidiary | – | – | – | 83 |
| Net income for the period | $ 21,771 | $ 30,714 | $ 69,774 | $ 101,589 |
| Earnings Per Share | | | | |
| *Basic* | *$ 0.24* | *$ 0.34* | *$ 0.76* | *$ 1.13* |
| *Diluted* | *$ 0.23* | *$ 0.34* | *$ 0.75* | *$ 1.11* |

## AGF Management Limited
## Consolidated Statements of Retained Earnings

(IN THOUSANDS OF DOLLARS)

(UNAUDITED)

| | Three months ended August 31, 2003 | Three months ended August 31, 2002 | Nine months ended August 31, 2003 | Nine months ended August 31, 2002 |
|---|---|---|---|---|
| Retained earnings, beginning of period | $ 531,001 | $ 462,648 | $ 495,819 | $ 402,964 |
| Net income for the period | 21,771 | 30,714 | 69,774 | 101,589 |
| | 552,772 | 493,362 | 565,593 | 504,553 |
| Deduct: | | | | |
| Dividends on Class A and Class B shares | 6,921 | 5,853 | 19,742 | 17,044 |
| Excess paid over average issue price of Class B shares purchased for cancellation | – | 3,819 | – | 3,819 |
| | 6,921 | 9,672 | 19,742 | 20,863 |
| Retained earnings, end of period | $ 545,851 | $ 483,690 | $ 545,851 | $ 483,690 |

## AGF Management Limited
## Consolidated Statements of Cash Flow

(IN THOUSANDS OF DOLLARS)

(UNAUDITED)

| | Three months ended August 31, 2003 | Three months ended August 31, 2002 | Nine months ended August 31, 2003 | Nine months ended August 31, 2002 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net income for the period | $ 21,771 | $ 30,714 | $ 69,774 | $ 101,589 |
| Items not affecting cash - | | | | |
| Amortization of deferred selling commissions | 29,472 | 28,123 | 87,110 | 85,980 |
| Amortization of customer contracts, relationships and investment advisory contracts | 4,492 | 3,896 | 13,646 | 11,082 |
| Amortization of property, equipment and other intangible assets | 5,700 | 4,400 | 15,978 | 12,609 |
| Future income taxes | (6,590) | (3,454) | (17,524) | (4,445) |
| Gain on sale of investment in associated company (note 3) | – | – | (12,758) | – |
| Other | 945 | 210 | 2,204 | 2,728 |
| | 55,790 | 63,889 | 158,430 | 209,543 |
| Net (increase) decrease in non-cash balances related to operations | 10,999 | 9,360 | (8,120) | (4,023) |
| | 66,789 | 73,249 | 150,310 | 205,520 |
| **Financing Activities** | | | | |
| Net change in Class B shares | 820 | (4,480) | 5,467 | (2,778) |
| Dividends | (6,921) | (5,853) | (19,742) | (17,044) |
| Net decrease in bank loan | (45,850) | (15,850) | (74,050) | (17,050) |
| Increase in leasehold inducements | 160 | – | 160 | – |
| Decrease in notes and instalment payable | (927) | (6,379) | (3,709) | (9,565) |
| Net increase (decrease) in Trust Company deposits | (31,049) | 22,214 | 4,015 | 154,647 |
| | (83,767) | (10,348) | (87,859) | 108,210 |
| **Investing Activities** | | | | |
| Deferred selling commissions paid | (8,979) | (13,149) | (34,551) | (89,631) |
| Acquisition of third-party administration business | 6,555 | – | 6,555 | (25,506) |
| Acquisition of subsidiary, net of cash acquired (note 2) | – | – | (7,530) | – |
| Investment in associated company | – | (7,951) | (604) | (7,951) |
| Purchase of property, equipment and other intangible assets | (4,248) | (6,123) | (8,066) | (11,253) |
| Purchase of investments | – | (575) | – | (575) |
| Sale (purchase) of investments-Trust Company | (37) | – | 1,378 | – |
| Net increase in Trust Company mortgages and consumer loans | (4,434) | (4,107) | (95,610) | (165,727) |
| | (11,143) | (31,905) | (138,428) | (300,643) |
| Increase (decrease) in cash and cash equivalents during the period | (28,121) | 30,996 | (75,977) | 13,087 |
| Balance of cash and cash equivalents, beginning of period | 96,853 | 34,912 | 144,709 | 52,821 |
| Balance of cash and cash equivalents, end of period | $ 68,732 | $ 65,908 | $ 68,732 | $ 65,908 |
| Represented by: | | | | |
| Cash and term deposits | $ 7,450 | $ 15,192 | | |
| Trust Company cash and term deposits | 41,611 | 29,948 | | |
| Short-term investments | 19,671 | 20,768 | | |
| | $ 68,732 | $ 65,908 | | |

# notes to consolidated financial statements

FOR THE THREE MONTHS AND NINE MONTHS ENDED AUGUST 31, 2003 AND AUGUST 31, 2002 (UNAUDITED)

(IN DOLLARS, EXCEPT AS OTHERWISE STATED)

These unaudited interim consolidated financial statements of AGF Management Limited ("AGF" or "Corporation") have been prepared in accordance with Canadian generally accepted accounting principles using the same significant accounting policies as AGF's consolidated financial statements for the year ended November 30, 2002, except for the change in accounting policy described in note 1. These financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended November 30, 2002, as set out in AGF's 2002 Annual Report. Certain comparative amounts have been reclassified to conform with the current period's presentation.

## 1.

### Change in Accounting Policy

**Stock-Based Compensation**

On December 1, 2002, AGF adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments" for stock options granted on or after that date. Section 3870 requires the disclosure of pro-forma net income and earnings per share, as if the Corporation had applied the fair value-based method of accounting for stock based compensation. Under this method, the fair value of stock options are determined on their grant date and recorded as compensation expense over the period that the stock options vest. There is no pro-forma compensation expense recorded for the nine months ended August 31, 2003, as no stock options were granted during the period.

## 2.

### Acquisition of Consort Information Systems Limited

On April 17, 2003, the Corporation, through its wholly-owned subsidiary, Investmaster Group Limited, acquired all of the outstanding shares of Consort Information Systems Limited ("CISL") for consideration of $9.3 million, including acquisition costs of $0.4 million. Cash consideration paid, including acquisition costs, amounted to $8.4 million with a future payment of $0.9 million due on January 31, 2006. Additional payments to senior management and other employees of CISL to a maximum of $8.0 million are payable on February 28, 2005 and 2006, conditional on CISL achieving certain revenue and profit targets. CISL is based in the U.K. and is a supplier of customized software to the U.K. private client stockbroking industry. The acquisition is being accounted for by the purchase method of accounting with the results of operations of CISL included in the consolidated financial statements from the date of acquisition. The value attributed to the acquired software is being amortized on a straight-line basis over five years.

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

| | | $(000's) |
|---|---|---|
| **Net Assets Acquired** | | |
| Current assets | $ | 2,568 |
| Property and equipment | | 264 |
| Software | | 9,473 |
| Goodwill | | 1,336 |
| Liabilities | | (1,337) |
| Future income taxes | | (3,028) |
| | $ | 9,276 |
| **Consideration Paid (including acquisition costs)** | | |
| Cash | $ | 8,339 |
| Payment due January 31, 2006 | | 937 |
| | $ | 9,276 |

# 3.

## Investment in Associated Company

On December 2, 2002, the merger of NCL (Securities) Limited ("NCL") and Smith & Williamson Holdings Limited ("S&WHL") and the cash subscription by the Corporation of $70.0 million of new capital in the enlarged business were completed. Prior to the merger and subscription, the Corporation owned 43.5% of NCL. With the completion of the merger and subscription, the Corporation holds a 30.0% interest in S&WHL, which provides independent private client investment management, financial advisory and accounting services in the U.K.

The Corporation recognized a pre-tax capital gain of $12.8 million in the three months ended February 28, 2003 on the disposition of its investment in NCL with respect to the completion of the above transaction.

The investment is being accounted for by the equity method, with the Corporation's share of the results of operations of S&WHL included in the consolidated financial statements from the date of purchase. The purchase price allocation and consideration paid are summarized as follows:

| | | $(000's) |
|---|---|---|
| **Net Assets Acquired** | | |
| Net tangible assets | $ | 22,453 |
| Customer contracts and relationships | | 107,777 |
| Goodwill | | 22,340 |
| Future income taxes | | (33,305) |
| | $ | 119,265 |
| **Consideration Paid (including acquisition costs)** | | |
| Cash | $ | 70,598 |
| Shares in NCL | | 48,667 |
| | $ | 119,265 |

In the nine months ended August 31, 2003, the Corporation's share of the net earnings of S&WHL, net of amortization of customer contracts and relationships, amounted to a loss of $151,000.

## 4.

## Capital Stock

**(a)** Authorized Capital

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

**(b)** Movement During the Period

The movement in capital stock during the nine months ended August 31, 2003 is summarized as follows:

| | Number of Shares Issued | | Amount $(000's) |
|---|---|---|---|
| **Class B Shares** | | | |
| Balance, November 30, 2002 | 91,043,109 | $ | 390,840 |
| Issued through dividend reinvestment plan | 4,254 | | 60 |
| Stock options exercised | 1,467,200 | | 5,407 |
| Balance, August 31, 2003 | 92,514,563 | $ | 396,307 |
| **Class A Shares** | | | |
| Balance, August 31, 2003 and November 30, 2002 | 57,600 | | – |
| **Total Capital Stock** | | $ | 396,307 |

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

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B shares through the facilities of The Toronto Stock Exchange. Present approval for such purchases extends through to February 2004.

**(d)** Stock Option Plans

AGF has established stock option plans for senior employees under which stock options to purchase an aggregate maximum of 4,256,337 Class B shares could have been granted as at August 31, 2003. Stock options are vested to the extent of 25% to 33% of the individual's entitlement per annum.

The movement in stock options during the nine months ended August 31, 2003 is summarized as follows:

| | Number of Options | | Weighted Average Exercise Price |
|---|---|---|---|
| **Class B share options** | | | |
| Balance Outstanding, November 30, 2002 | 4,983,947 | $ | 12.60 |
| Options granted | – | $ | – |
| Options cancelled | (29,000) | $ | 23.14 |
| Options exercised | (1,467,200) | $ | 3.69 |
| Balance Outstanding, August 31, 2003 | 3,487,747 | $ | 16.27 |

# 5.

## Long-Term Debt

| $(000's) | | August 31, 2003 | | November 30, 2002 |
|---|---|---|---|---|
| Bank loans | | | | |
| Fully amortizing term loan | $ | 79,650 | $ | 106,200 |
| Revolving term loan | | 76,300 | | 123,800 |
| Notes payable due November 22, 2004 | | 9,323 | | 9,938 |
| Notes payable due April 30, 2013 | | 22,075 | | 25,140 |
| Loan notes due September 30, 2004 | | 230 | | 286 |
| Payment re CISL due January 31, 2006 (note 2) | | 937 | | – |
| Capital lease obligations | | 3,068 | | 408 |
| | | 191,583 | | 265,772 |
| Less: amount included in current liabilities | | 41,136 | | 40,369 |
| | $ | 150,447 | $ | 225,403 |





### Bank Loans

**Fully Amortizing Term Loan**

As at August 31, 2003, the Corporation has drawn the facility in the form of a 92-day bankers' acceptance ("BA") at an effective interest rate of 3.23% per annum.

**Revolving Term Loan**

As at August 31, 2003, the Corporation has drawn $76.3 million against the available loan amount of $150.0 million in the form of six to 61-day BAs at an effective interest rate of 3.32% per annum.

# 6.

## Interest Rate Swap and Foreign Exchange Hedge Transactions

To fix the interest rate paid on a portion of its long-term debt, the Corporation has entered into three interest rate swap transactions (the "Swap Transactions") with a Canadian chartered bank. The Swap Transactions expire between October 28, 2007 and January 27, 2008. They involve the exchange of three-month BA floating interest rates for fixed interest rates of 5.47% to 5.56% per annum. As at August 31, 2003, the aggregate notional amount of the Swap Transactions was $42.2 million. The aggregate fair value of the Swap Transactions, which represents the amount that would be paid by the Corporation if the transactions were terminated at August 31, 2003, was $1,783,000.

To hedge its currency exposure and to fix the interest rate on borrowings in connection with a Japanese yen denominated investment, the Corporation has entered into a cross currency swap transaction, which expires on November 29, 2004. It involves the exchange of three-month BA floating interest rates on a notional amount of CDN $3,293,000 for a fixed interest rate of 0.67% per annum on a notional amount of JPY ¥256,000,000. The aggregate fair value of the cross currency swap transaction, which represents the amount that would be received by the Corporation if the transaction was terminated at August 31, 2003, was $237,000.

To hedge its currency exposure in connection with its investment in U.K.-based S&WHL, an associated company (see note 3), the Corporation has entered into three foreign exchange forward contracts to sell U.K. £50,000,000 on November 28, 2003 at an average exchange rate of 2.2732 for CDN $113,658,000. The fair value of the forward contracts at August 31, 2003 has been recorded in a separate component of shareholders' equity as a foreign currency translation adjustment.

To hedge its exposure to fluctuating interest rates, AGF Trust Company has entered into interest rate swap transactions with two Canadian chartered banks, as noted below. The swap transactions expire between October 1, 2003 and January 31, 2008 and involve the exchange of the average one-month bankers' acceptance rate to receive fixed interest rates, paid monthly. As at August 31, 2003, the aggregate notional amount of the swap transactions was $266.7 million. The aggregate fair value of the swap transactions, which represents the amount that would be received by AGF Trust Company if the transactions were terminated at August 31, 2003, was $2,423,000.

$(000's)

| Notional Amount of Swap | Maturity Date | Fixed Interest Rate Received |
|---|---|---|
| $ 84,000 | 2003 | 2.82% - 3.90% |
| 69,500 | 2004 | 3.16% - 4.41% |
| 33,500 | 2005 | 3.31% - 4.17% |
| 15,000 | 2006 | 3.81% - 4.57% |
| 54,700 | 2007 | 3.74% - 5.11% |
| 10,000 | 2008 | 4.13% - 4.17% |



# 7.

## Supplemental Disclosure of Cash Flow Information

| $(000's) | Three months ended August 31 | | Nine months ended August 31 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Interest payments | $ 7,060 | $ 6,081 | $ 21,639 | $ 17,640 |
| Income tax payments | $ 9,371 | $ 15,089 | $ 44,653 | $ 43,573 |

# 8.

## Segment Information

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

The results of the reportable segments are based upon the internal financial reporting systems of AGF. The accounting policies used in these segments are generally consistent with those described in the summary of significant accounting policies detailed in AGF's 2002 annual financial statements. The first quarter segment information has been adjusted to conform to the presentation used for the current period.

$(000'S)

FOR THE THREE MONTHS ENDED AUGUST 31, 2003

| | Wealth Management Operations | Fund Administration Operations | Trust Company Operations | Other | Inter-Segment Elimination | Total |
|---|---|---|---|---|---|---|
| **External revenue** | $ 120,920 | $ 17,616 | $ 9,267 | $ (405) | $ – | $ 147,398 |
| **Intersegment revenue** | 1,212 | 11,225 | 288 | – | (12,725) | – |
| **Segment revenue** | 122,132 | 28,841 | 9,555 | (405) | (12,725) | 147,398 |
| **Operating expenses** | 53,769 | 26,787 | 7,194 | 2,340 | (12,725) | 77,365 |
| **Amortization** | 35,319 | 3,637 | 256 | 452 | – | 39,664 |
| **Segment income (loss) before taxes** | $ 33,044 | $ (1,583) | $ 2,105 | $ (3,197) | $ – | $ 30,369 |
| ***Included in External Revenue*** | | | | | | |
| **Interest revenue** | $ 161 | $ 22 | $ 8,792 | $ – | $ – | $ 8,975 |

$(000'S)

FOR THE THREE MONTHS ENDED AUGUST 31, 2002

| | Wealth Management Operations | Fund Administration Operations | Trust Company Operations | Other | Inter-Segment Elimination | Total |
|---|---|---|---|---|---|---|
| **External revenue** | $ 145,186 | $ 11,999 | $ 7,185 | $ (598) | $ – | $ 163,772 |
| **Intersegment revenue** | (165) | – | 165 | – | – | – |
| **Segment revenue** | 145,021 | 11,999 | 7,350 | (598) | – | 163,772 |
| **Operating expenses** | 65,301 | 12,545 | 5,547 | 2,541 | – | 85,934 |
| **Amortization** | 34,039 | 1,494 | 147 | 739 | – | 36,419 |
| **Segment income (loss) before taxes** | $ 45,681 | $ (2,040) | $ 1,656 | $ (3,878) | $ – | $ 41,419 |
| ***Included in External Revenue*** | | | | | | |
| **Interest revenue** | $ 415 | $ 9 | $ 6,745 | $ – | $ – | $ 7,169 |

$(000'S)

FOR THE NINE MONTHS ENDED AUGUST 31, 2003

| | Wealth Management Operations | Fund Administration Operations | Trust Company Operations | Other | Inter-Segment Elimination | Total |
|---|---|---|---|---|---|---|
| **External revenue** | $ 355,653 | $ 53,008 | $ 25,804 | $ 12,461 | $ – | $ 446,926 |
| **Intersegment revenue** | 3,609 | 38,501 | 891 | – | (43,001) | – |
| **Segment revenue** | 359,262 | 91,509 | 26,695 | 12,461 | (43,001) | 446,926 |
| **Operating expenses** | 162,294 | 84,151 | 22,588 | 7,577 | (43,001) | 233,609 |
| **Amortization** | 104,280 | 10,140 | 720 | 1,594 | – | 116,734 |
| **Segment income (loss) before taxes** | $ 92,688 | $ (2,782) | $ 3,387 | $ 3,290 | $ – | $ 96,583 |
| ***Included in External Revenue*** | | | | | | |
| **Interest revenue** | $ 675 | $ 88 | $ 24,715 | $ 5 | $ – | $ 25,483 |

$(000'S)

FOR THE NINE MONTHS ENDED AUGUST 31, 2002

| | Wealth Management Operations | Fund Administration Operations | Trust Company Operations | Other | Inter-Segment Elimination | Total |
|---|---|---|---|---|---|---|
| **External revenue** | $ 458,197 | $ 30,857 | $ 17,624 | $ (1,229) | $ – | $ 505,449 |
| **Intersegment revenue** | (527) | – | 527 | – | – | – |
| **Segment revenue** | 457,670 | 30,857 | 18,151 | (1,229) | – | 505,449 |
| **Operating expenses** | 204,731 | 30,991 | 16,728 | 8,059 | – | 260,509 |
| **Amortization** | 103,635 | 3,610 | 431 | 1,995 | – | 109,671 |
| **Segment income (loss) before taxes** | $ 149,304 | $ (3,744) | $ 992 | $(11,283) | $ – | $ 135,269 |
| ***Included in External Revenue*** | | | | | | |
| **Interest revenue** | $ 938 | $ 9 | $ 16,736 | $ – | $ – | $ 17,683 |

What are you doing after work?

AGF
MUTUAL
FUNDS

AGF TAILORED
INVESTMENT
PROGRAMS
Harmony

AGF PRIVATE
INVESTMENT
MANAGEMENT

AGF
TRUST

**AGF Management Limited**

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