AGF Management Limited

Third Quarter Report
For the **9 months** ended August 31, 2006

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Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis includes forward-looking statements about AGF Management Limited, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as 'expects', 'anticipates', 'intends', 'plans', 'believes' or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action on our part, is also a forward-looking statement. Forward-looking statements are based on certain factors and assumptions, including expected growth, results of operations, 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 factors such as level of assets under our management, volume of sales and redemption of our investment products, performance of our investment funds and of our investment managers and advisors, competitive fee levels for investment management products and administration and competitive dealer compensation levels, size and default experience on our loan portfolio and cost efficiency in our loan operations as well as interest and foreign exchange rates, taxation, changes in government regulations, unexpected judicial or regulatory proceedings, and our ability to complete strategic transactions and integrate acquisitions. We caution that the foregoing list is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Please see the 2005 Annual MD&A 'Factors that May Affect Future Results' section for a further discussion of factors that may affect actual results. We expressly disclaim such obligation to update or alter the forward-looking statements whether as a result of new information, future events or otherwise except as may be required by law.

Dear fellow shareholders

During the third quarter of 2006, AGF continued to drive forward with our plans to revitalize our mutual fund business and develop growth opportunities in related businesses. We recorded another fiscal quarter of positive net sales in our mutual fund business. The remainder of the Investment Management Operations segment was strong, with both institutional and private investment management assets increasing. Investment performance has been exceptional. To the end of August 31, 2006, AGF has the highest percentage of funds in the first quartile over one and three years of any of the 10 largest mutual fund firms in Canada. AGF Trust continued to grow, creating value for shareholders and more importantly, contributing to growth in our core mutual fund business.

Shortly after quarter-end, we announced that AGF International Advisors Company Limited (AGFIA) assumed the role of Portfolio Advisor to AGF International Value Fund and AGF International Value Class. AGF International Value Fund is our largest fund, with $3.3 billion in assets. The move was made only after careful consideration regarding the best interest of securityholders. The team at AGFIA has demonstrated their ability to manage global equities in several top-performing AGF mutual funds and we believe the move further strengthens our offering to advisors.

In the third quarter of fiscal 2006, consolidated revenue was $172.6 million compared with $153.0 million in the third quarter of the prior year. The growth in revenue is attributable to solid results at our Trust Company. Consolidated net income from continuing operations for the three months ended August 31, 2006 was $35.5 million, compared with $20.8 million for the same period last year. Included in our net income for the three months ended August 31, 2006 was a $15.9 million credit to future income taxes related to the Canadian federal income tax rates which were reduced and substantially enacted in June 2006. Earnings before interest, taxes, depreciation and amortization[1] (EBITDA) from continuing operations was $56.1 million, compared with $65.3 million for the three months ended August 31, 2005. The reduction in EBITDA is primarily attributable to increased sales and marketing costs and reductions in deferred sales charge revenue.

For the three months ended August 31, 2006, AGF reported cash flow from continuing operations[1] (before net change in non-cash balances related to operations) of $61.7 million, compared with $53.9 million one year ago. Free cash flow[1] (cash flow from continuing operations less selling commissions paid) was $40.0 million, compared with $41.2 million one year ago. This reduction in free cash flow is directly related to our improved mutual fund net sales position, as we paid more deferred sales commissions and collected less in deferred sales charges during the three months ended August 31, 2006, compared with the same period last year.

The success we have achieved in our business has translated into increasing total assets under management (AUM). Total AUM at the end of this fiscal quarter, including mutual funds, institutional mandates and AGF Private Investment Management (PIM), was $39.0 billion, up 17.1% from $33.3 billion one year ago. This growth has been a direct result of putting more resources into our business. As a result, over the past two years, selling general and administrative expenses have increased as our sales and marketing has intensified and we strive to build and retain top-performing teams.

With only one quarter remaining in this fiscal year, we will continue to execute our plan to ensure we focus on the needs of our clients. As our business grows, we know there is an opportunity to benefit from the substantial operating leverage in this business. As we look forward, translating organic business growth into improved financial results will be a top priority.

Blake C. Goldring, CFA
Chairman and Chief Executive Officer
August 31, 2006

[1] Cash flow from continuing operations, free cash flow and EBITDA are non-GAAP measures. Please refer to page 4 of this report.

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

For the nine months ended August 31, 2006

This Management's Discussion and Analysis (MD&A) presents an analysis of the financial condition of AGF Management Limited and its subsidiaries as at August 31, 2006 compared with November 30, 2005, and the results of operations for the three and nine months ended August 31, 2006 compared with the corresponding periods of 2005. This discussion should be read in conjunction with our 2005 annual MD&A and 2005 annual audited Consolidated Financial Statements and Notes. The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles (GAAP). Percentage changes are calculated using numbers rounded to the decimals that appear in this MD&A. All dollar amounts are in Canadian dollars unless otherwise indicated.

There have been no material changes to the information discussed in the following sections of the 2005 annual MD&A: 'Factors that May Affect Future Results', 'Disclosure Controls', 'Off Balance Sheet Arrangements', 'Intercompany and Related Party Transactions' and 'Government Regulations'. Please see the 'Critical Accounting Policies' section of this MD&A for details regarding changes since the annual 2005 MD&A. There has been a change to the 'Contractual Obligations' section due to the agreement with Multi-Fund Management Inc. (Multi-Fund), which is described on page 8 of this report. The 'Key Performance Indicators and Non-GAAP Measures section contains a reconciliation of non-GAAP measures to GAAP measures.

Overview

AGF Management Limited (AGF), with approximately $39 billion in assets under management (AUM), is one of Canada's premier investment management companies, with operations in Canada, the United Kingdom, Ireland and Asia. Approaching 50 years in business, we commenced operations in 1957 with one of the first mutual funds available to Canadians wishing to invest internationally.

For purposes of this discussion, the operations of AGF and our subsidiary companies are referred to as 'we', 'us', 'our' or the 'Company'. The financial results relating to the operations have been reported in three segments: Investment Management Operations, Trust Company Operations and Other. As a result of the sale of Unisen Holdings Inc. (Unisen), Unisen's operations have been reported as discontinued operations. The results of Investmaster Group Limited (Investmaster) have been included in Other, as this entity does not meet the criteria for separate disclosure.

Strategy and Highlights

As stated in our 2005 annual MD&A, our overall business strategy is to help identify and facilitate opportunities for our business segments and ensure segment strategies are aligned with the overall corporate strategy of targeting sustainability, profitability and value for our shareholders over the long term.

During the third quarter of 2006, we achieved the following:

- Recorded our second consecutive quarter of positive net sales in our mutual fund business. For the third quarter, AGF's net sales of long-term funds totalled $77 million, compared with net redemptions of $155 million in 2005.
- Delivered value directly to our shareholders through dividend payments. Dividends paid on Class A Voting Common and Class B Non-Voting Shares increased 18.5% to $16.0 million in Q3 2006, compared with $13.5 million in 2005.
- Including dividends and share repurchases, returned 40.1% of our free cash flow to shareholders during the three months ended August 31, 2006, versus 70.0% in the comparable period last year. For the nine months ended August 31, 2006 we returned 66.5% of our free cash flow to shareholders versus 56.4% in the comparable period last year. We define free cash flow as cash flow from operations before net change in non-cash balances related to operations less deferred selling commissions paid.

- Continued to support the growth of AGF Trust and invested $15.5 million during the three months ended August 31, 2006, bringing our total investment in debt and equity capital to $123.4 million. This compares with the investment of $5.0 million for the three months ended August 31, 2005. AGF Trust mortgage loans have grown 81.6% over the prior year and consumer loans have grown 50.3%.
- Established a Restricted Share Unit (RSU) plan for senior employees under which certain employees were granted RSUs of AGF Class B Non-Voting Shares. The objective of the RSU plan is to ensure that senior employees' compensation is aligned with shareholders' interests.

We remain focused on our strategy and are pleased with the results to date.

Key Performance Indicators and Non-GAAP Measures

We measure the success of our strategies using a number of key performance indicators that are defined and described in our 2005 annual MD&A. The following key performance indicators are not measurements in accordance with Canadian GAAP and should not be considered as an alternative to net income or any other measure of performance under Canadian GAAP. Segment discussions include a review of key performance indicators that are relevant to each segment. Key performance indicators include:

- AUM
- investment performance (market appreciation of fund portfolios)
- net sales
- EBITDA
- EBITDA margin
- cash flow from operations
- free cash flow
- return on equity (ROE) and return on investment (ROI)
- loan asset growth
- net interest income
- efficiency ratio

The non-GAAP measures that we use throughout this discussion and related calculations are defined as follows. These non-GAAP measures are discussed as part of the business segment discussions included herein:

EBITDA

We define EBITDA as income before interest expense, income taxes, depreciation and amortization. EBITDA is a standard measure used in the mutual fund industry by management, investors and investment analysts in understanding and comparing results. We believe this is an important measure as it allows us to assess our ongoing businesses without the impact of amortization and is an indicator of our ability to incur or service debt, invest in our business, finance sales commissions, pay dividends and execute share repurchase programs. EBITDA for the Trust Company Operations segment includes interest expense related to deposits. These deposits fund our consumer loan and mortgage programs and therefore are considered an operating cost directly related to generating interest revenue. We include this interest expense in Trust Company Operations EBITDA to provide a meaningful comparison to our other business segments and our competitors.

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

EBITDA Margin

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

Consolidated

($ millions)	Three months ended August 31, 2006	Three months ended August 31, 2005	Nine months ended August 31, 2006	Nine months ended August 31, 2005
EBITDA (continuing operations)	$ 56.1	$ 65.3	$ 190.4	$ 194.0
Divided: by revenue	172.6	153.0	516.0	445.8
EBITDA margin	32.5%	42.7%	36.9%	43.5%

Investment Management Operations

($ millions)	Three months ended August 31, 2006	Three months ended August 31, 2005	Nine months ended August 31, 2006	Nine months ended August 31, 2005
EBITDA	$ 49.2	$ 60.6	$ 159.4	$ 186.1
Divided: by revenue	131.7	131.7	396.2	386.9
EBITDA margin	37.4%	46.0%	40.2%	48.1%

Cash Flow from Operations

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

($ millions)	Three months ended August 31, 2006	Three months ended August 31, 2005	Nine months ended August 31, 2006	Nine months ended August 31, 2005
Net cash provided by continuing operating activities	$ 68.0	$ 64.6	$ 151.2	$ 172.6
Less: net changes in non-cash balances from operations	6.3	10.7	(14.9)	3.2
Cash flow from continuing operations	$ 61.7	$ 53.9	$ 166.1	$ 169.4

Free Cash Flow

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

($ millions)	Three months ended August 31, 2006	Three months ended August 31, 2005	Nine months ended August 31, 2006	Nine months ended August 31, 2005
Cash flow from continuing operations (defined above)	$ 61.7	$ 53.9	$ 166.1	$ 169.4
Less: selling commissions paid	21.7	12.7	73.9	44.8
Free cash flow	$ 40.0	$ 41.2	$ 92.2	$ 124.6

Net Interest Income

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

($ millions)	Three months ended August 31, 2006	Three months ended August 31, 2005	Nine months ended August 31, 2006	Nine months ended August 31, 2005
Interest income	$ 34.9	$ 17.2	$ 91.2	$ 44.2
Less: interest expense	21.6	8.1	53.9	20.9
Net interest income	$ 13.3	$ 9.1	$ 37.3	$ 23.3

Efficiency Ratio

The efficiency ratio is a key lending industry performance indicator. We utilize this ratio to ensure expenses are contained as AGF Trust grows. The ratio is calculated from AGF Trust results by dividing non-interest expenses by the total of net interest income and non-interest income.

	Three months ended August 31,		Nine months ended August 31,	
($ millions)	2006	2005	2006	2005
Non-interest expense	$ 8.0	$ 4.6	$ 22.2	$ 13.1
Net interest income	$ 13.3	$ 9.1	$ 37.3	$ 23.3
Add: non-interest income	2.4	0.9	14.9	2.5
Divided by: total of net interest and non-interest income	15.7	10.0	52.2	25.8
Efficiency ratio	51.0%	46.0%	42.5%	50.8%

Critical Accounting Policies

In the nine months ended August 31, 2006, three additional significant accounting policies were adopted by the Company and are supplemental to the 'Critical Accounting Policies' section of the 2005 annual MD&A. These policies are as follows:

1) Accounting for Securitizations

Under AcG-12, in order for a securitization to be treated as a sale, the Company must surrender control over those loans included in the securitization. To surrender control, the securitized assets must be isolated from the Company and its creditors, even in the case of bankruptcy or receivership, and the Company must receive consideration other than the beneficial interest in the transferred assets.

In determining the gain or loss on sale, management estimates future cash flows by relying on estimates of the amount of interest that will be collected on the securitized assets, the yield paid to investors, the portion of the securitized assets that will be prepaid before their scheduled maturity, expected credit losses, the cost of servicing the assets and the rate at which to discount these expected future cash flows. Actual cash flows may differ significantly from those estimated by management. If actual cash flows are different from management's estimate of future cash flows then the gains or losses on the securitization recognized in income will be adjusted. Note 2 to the financial statements provides additional disclosure regarding the securitizations and related balance sheet and income statement impacts.

2) AGF Elements

In November 2005, the Company launched AGF Elements, which consists of five diversified fund of fund portfolios. If an AGF Elements portfolio does not match or outperform its customized benchmark over a three-year period, each individual investor will receive up to 90 basis points in additional units, calculated based on the value of such investment at the end of the three-year period.

The Company will include in other liabilities up to 30 basis points per year of each investor's assets under management, adjusted for redemptions, until the end of the three-year measurement period of each investment made by such investor. At that time, if an individual investor's returns match or exceed the corresponding benchmark, the Company will recognize the entire amount as management fee revenue. If an individual investor's actual returns are below the customized benchmark, a corresponding amount will be distributed to the investor in the form of individual units.

3) Accounting for Restricted Share Units

During the quarter, the Company established a RSU plan for senior employees under which certain employees were granted RSUs of AGF Class B Non-Voting shares. The RSUs vest after three years provided the employee meets certain performance criteria. On the vesting date, the Company, at its option, will redeem all of the participants' RSUs in cash equal to the value of one Class B Non-Voting Share for each RSU. Compensation expense is recorded equally over the vesting period, taking into account fluctuations in the market price of AGF Class B Non-Voting shares and forfeitures. The related liability is adjusted to the market price of the AGF Class B Non-Voting Shares at each balance sheet date and the related adjustment is recorded in income.

Consolidated Operating Results

Our consolidated operating results for the three and nine months ended August 31, 2006 and August 31, 2005 are as follows:

	Three Months Ended August 31,			Nine Months Ended August 31,		
($ millions, except per share amounts)	2006	2005	% change	2006	2005	% change
Revenue						
Investment Management Operations	$ 131.7	$ 131.7	0.0%	$ 396.2	$ 386.9	2.4%
Trust Company Operations	37.3	18.1	106.1%	106.1	46.7	127.2%
Other	4.2	3.9	7.7%	15.3	12.9	18.6%
Intersegment eliminations	(0.6)	(0.7)	n/m	(1.6)	(0.7)	n/m
	172.6	153.0	12.8%	516.0	445.8	15.7%
Expenses						
Investment Management Operations	82.5	71.1	16.0%	236.8	200.8	17.9%
Trust Company Operations[1]	31.2	13.6	129.4%	81.4	37.1	119.4%
Other	3.4	3.7	(8.1%)	9.0	14.6	(38.4%)
Intersegment eliminations	(0.6)	(0.7)	n/m	(1.6)	(0.7)	n/m
	116.5	87.7	32.8%	325.6	251.8	29.3%
EBITDA[2] (continuing operations)	56.1	65.3	(14.1%)	190.4	194.0	(1.9%)
Amortization	33.8	34.3	(1.5%)	101.3	104.1	(2.7%)
Interest expense	0.6	1.3	(53.8%)	2.0	4.2	(52.4%)
Income taxes	(13.8)	8.9	n/m	5.8	25.0	(76.8%)
Net income from continuing operations	35.5	20.8	70.7%	81.3	60.7	33.9%
Gain on repayment of debt, net of tax	0.0	0.0	n/m	13.3	0.0	n/m
Loss on sale of discontinued operations, net of tax	(0.9)	0.0	n/m	(2.9)	0.0	n/m
Net earnings (loss) of discontinued operations, net of tax	0.0	(0.5)	n/m	0.0	3.1	n/m
Net income	$ 34.6	$ 20.3	70.4%	$ 91.7	$ 63.8	43.7%
Earnings per share from continuing operations - diluted	$ 0.40	$ 0.23	73.9%	$ 0.90	$ 0.67	34.3%

[1] Includes interest expense related to deposits, the funds of which are used in our consumer loan and mortgage programs. See the 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section.

[2] As previously defined, see the 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section. The items required to reconcile EBITDA to net income, a defined term under Canadian GAAP, are detailed above.

Revenue for the three and nine months ended August 31, 2006 increased by 12.8% and 15.7%, respectively, as compared with the corresponding period in 2005. For the three months ended August 31, 2006, the increase is primarily attributable to revenue growth of 106.1% in the Trust Company Operations. For the nine months ended August 31, 2006, the revenue increase was attributable to revenue from Investment Management, which was up from the prior year by 2.4%, and revenue from Trust Company Operations which was up by 127.2%. Other revenue, which includes revenue of Investmaster and our 30.8% equity interest in Smith & Williamson Holdings Limited (S&WHL), was higher for the three and nine months ended August 31, 2006 as compared with the corresponding periods in 2005, due to strong performance at S&WHL.

Expenses for the three and nine months ended August 31, 2006 increased by 32.8% and 29.3%, respectively, as compared with the corresponding periods in 2005. Investment Management Operations expenses increased by 16.0% and 17.9%, respectively, for the three and nine months ended August 31, 2006 as compared with the corresponding periods in 2005. Investment management expenses are higher due to sales and marketing efforts, fund absorption related to the capping and soft capping of management expense ratios in our funds, and increased expenses in the Private Investment Management business. Trust Company Operations expenses increased by 129.4% and 119.4%, respectively, for the three and nine months ended August 31, 2006 as compared with the corresponding periods in 2005. These increases are primarily due to increases in interest costs on deposits held to fund mortgage and consumer loans. The declining expenses in the Other segment relates solely to Investmaster's operations, which have been significantly restructured to reduce costs.

The revenue and expense impact contributed to the decrease in EBITDA of 14.1% and 1.9% for the three and nine months ended August 31, 2006, respectively, from the corresponding periods of 2005. The overall EBITDA decline is a result of reduced EBITDA in the Investment Management Operations segment, offset by strong performance in our Trust Company Operations segment. The three months ended August 31, 2006 marked another quarter of net positive mutual fund sales and continued growth in the Institutional and Private Investment Management AUM. To this end, we continue to invest in and support initiatives that will facilitate future growth in the Investment Management Operations segment.

Amortization expenses decreased by 1.5% and 2.7% in the three and nine months ended August 31, 2006, respectively, compared with the corresponding periods in 2005. For the three and nine months ended August 31, 2006, amortization of deferred selling commissions in the Investment Management Operations segment accounted for $27.0 million and $81.4 million (2005 – $27.8 million and $84.8 million), respectively, of the total amortization expense and was the primary driver of the period-over-period decreases.

Interest expense, which is dependent on average outstanding loan balances, decreased by 53.8% and 52.4%, respectively, for the three and nine months ended August 31, 2006 as compared with the corresponding periods in 2005. Income tax recovery for the three months ended August 31, 2006 was $13.8 million as compared with an expense of $8.9 million in the third fiscal quarter of 2005 due to a $15.9 million credit to future income taxes related to the Canadian federal income tax rate reduction that was substantially enacted in June 2006. For the nine months ended August 31, 2006, income tax expense was $5.8 million as compared with $25.0 million in the corresponding period in 2005. The effective tax rate for the first nine months of 2006 was 6.7% as compared with 29.2% in the corresponding period of the prior year.

The impact of the above revenue and expense items resulted in net income from continuing operations of $35.5 million in the quarter ended August 31, 2006 as compared with $20.8 million in the comparable period of 2005. For the nine months ended August 31, 2006, net income from continuing operations was $81.3 million compared with $60.7 million in the prior-year period. Fully diluted earnings per share from continuing operations were $0.39 in the third quarter of 2006 as compared with $0.23 per share in the third quarter of 2005.

Net income was $34.6 million in the quarter ended August 31, 2006 as compared with $20.3 million in the comparable period of 2005. For the nine months ended August 31, 2006, net income was $91.7 million compared with $63.8 million in the prior-year period. The three- and nine-month periods ended August 31, 2006 included a $0.9 and $2.9 million loss, respectively, related to subsequent adjustments to the final purchase price on the sale of Unisen. The estimated losses relate to the sale of Unisen and are derived from a clause in the agreement of purchase and sale, which granted the purchaser client revenue guarantees up to, and including, June 30, 2006. The nine months ended August 31, 2006 also included a $13.3 million gain on repayment of debt. During the second quarter of 2006, we reached an agreement with Multi-Fund to terminate our obligations for a cash payment of $3.4 million. The gain resulted because the liability recorded on our balance sheet was higher than the cash buy-out price.

A further discussion of the results of each business segment for the three and nine months ended August 31, 2006 as compared with August 31, 2005 follows.

Business Segment Performance

We report on three business segments. Investment Management Operations and Trust Company Operations are discussed below. The Other segment includes the results of S&WHL, which is accounted for by the equity method, and the results of our wholly owned subsidiary Investmaster. These entities do not meet the criteria for separate segment disclosure. The Other segment also includes interest expense on our long-term debt. AGF's reportable segments are strategic business units that offer different products and services.

Investment Management Operations

Business and Industry Profile

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

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

Segment Strategy and Highlights

The strategic priorities for our investment management operations, which are detailed in the 2005 annual MD&A, include enhancing our client-centric model by focusing on investment excellence and service excellence, as well as promoting AGF's international investment management competency.

Consistent with our stated strategy during the third quarter of fiscal 2006, we achieved the following:

- Initiated steps to have AGF International Advisors Company Limited (AGFIA) assume the role of Portfolio Advisor to AGF International Value Fund and AGF International Value Class. AGF International Value Fund is our largest fund, with $3.3 billion in assets. The move, which took effect September 6, 2006,, was made only after careful consideration regarding the best interest of securityholders. The team at AGFIA has demonstrated their ability to manage global equities in several top-performing AGF mutual funds and we believe the move further strengthens our offering to advisors.
- Sustained the trend of improving sales figures and recorded our second consecutive quarter of positive net sales of mutual funds. AGF's net sales of long-term funds totalled $77 million for the three months ended August 31, 2006.
- Continued the successful promotion of AGF Elements, a proprietary fund of funds product that brings state-of-the-art portfolio construction and monitoring, along with an unprecedented commitment to quality of money management. AGF Elements was launched on November 28, 2005 and as of August 31, 2006 had reached AUM of $774.4 million.
- Continued the sales momentum of AGF Dividend Income Fund. This Fund was formerly ING Canadian Dividend Income Fund and was acquired on August 5, 2005. At the time, the Fund had AUM of $154.0 million. At the beginning of the third quarter of 2006, the Fund had grown to $595.8 million and by the end of the quarter, the Fund had grown to $708.0 million.
- Harmony, AGF's wrap program, reached $1.8 billion in assets under management. Launched in 1997, Harmony has become one of the industry's fastest-growing high-end wrap services.

Assets Under Management

The primary sources of revenue for AGF's Investment Management Operations segment are management and advisory fees. The amount of management and advisory fees is dependent on the level and composition of AUM. Under the management and investment advisory contracts between AGF and each of the mutual funds, we are entitled to monthly fees based on a specified percentage of the average daily net asset value of the respective fund. In addition, we earn fees on our institutional and private investment management AUM. As a result, the level of AUM has a significant influence on financial results. The following table illustrates the composition of the changes in total AUM during the three and nine months ended August 31, 2006 and August 31, 2005:

	Three months ended August 31,			Nine months ended August 31,		
($ millions)	2006	2005	% change	2006	2005	% change
Mutual fund AUM, beginning of period	$ 23,681	$ 21,650	9.4%	$ 22,209	$ 22,747	(2.4%)
Gross sales of mutual funds	948	902	5.1%	3,290	2,268	45.1%
Redemptions of mutual funds	(890)	(1,086)	(18.0%)	(3,277)	(4,683)	(30.0%)
Net mutual fund sales (redemptions)	58	(184)	(131.5%)	13	(2,415)	(100.5%)
Market appreciation of fund portfolios	690	732	(5.7%)	2,207	1,866	18.3%
Mutual fund AUM, end of period	$ 24,429	$ 22,198	10.1%	$ 24,429	$ 22,198	10.1%
Institutional AUM	8,277	5,638	46.8%	8,277	5,638	46.8%
PIM AUM	6,274	5,509	13.9%	6,274	5,509	13.9%
Total AUM, end of period	$ 38,980	$ 33,345	16.9%	$ 38,980	$ 33,345	16.9%
Average daily mutual fund AUM for the period	$ 23,699	$ 21,558	9.9%	$ 23,755	$ 21,471	10.6%

Investment performance, as well as net sales of $58.0 million, resulted in an increase in mutual fund AUM to $24.4 billion at August 31, 2006, from $23.7 billion at May 31, 2006. The average daily mutual fund AUM for the three and nine months increased by 9.9% and 10.6%, respectively, to $23.7 billion and $23.8 billion. Since August 31, 2005, institutional and private investment management AUM increased by 46.8% and 13.9%, respectively. These increases resulted in total AUM increasing by 16.9% to $39.0 billion.

Stock market performance influences the level of AUM. During the three and nine months ended August 31, 2006, the Canadian-dollar-adjusted S&P 500 Index rose 3.6% and 0.4%, the Canadian-dollar-adjusted NASDAQ Index rose 0.6% and declined 7.2%, and the S&P/TSX Composite Index rose 3.5% and 13.5%. The aggregate market appreciation of our mutual fund portfolios for the three and nine months ended August 31, 2006 divided by the average daily mutual fund AUM for the period was 2.9% and 9.3%, after management fees and expenses paid by the funds.

The impact of the U.S. dollar decrease relative to the Canadian dollar on the market value of AGF mutual funds since November 30, 2005 has been a decrease in AUM of $0.3 billion. Since May 31, 2006, the impact of the U.S. dollar increase has been an increase in AUM of $0.1 billion.

For the five-year period ended August 31, 2006, 61.0% of ranked mutual fund AUM performed above median. Over the 10-year period ended August 31, 2006, 63.7% of ranked AUM performed above median.

Financial and Operational Results

The Investment Management Operations segment results for the three and nine months ended August 31, 2006 and August 31, 2005 are as follows:

($ millions)	Three months ended August 31, 2006	2005	% change	Nine months ended August 31, 2006	2005	% change
Revenue						
Net management and advisory fees	$ 106.6	$ 100.6	6.0%	$ 317.9	$ 305.9	3.9%
Administration fees and other revenue	19.6	17.0	15.3%	56.3	46.1	22.1%
Deferred sales charges	5.6	8.7	(35.6%)	20.0	29.1	(31.3%)
Investment income	(0.1)	5.4	(101.9%)	2.0	5.8	(65.5%)
	131.7	131.7	0.0%	396.2	386.9	2.4%
Expenses						
Selling, general and administrative	44.1	36.8	19.8%	124.1	98.2	26.4%
Trailing commissions	32.0	27.8	15.1%	92.3	82.5	11.9%
Investment advisory fees	6.4	6.5	(1.5%)	20.4	20.1	1.5%
	82.5	71.1	16.0%	236.8	200.8	17.9%
EBITDA[1]	49.2	60.6	(18.8%)	159.4	186.1	(14.3%)
Amortization	32.7	33.3	(1.8%)	98.2	101.0	(2.8%)
Income before taxes and non-segmented items	$ 16.5	$ 27.3	(39.6%)	$ 61.2	$ 85.1	(28.1%)

[1] As previously defined, see the 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section.

Revenue

From the prior-year periods, revenue for the Investment Management Operations segment remained stable for the three-month period ended August 31, 2006 and increased by 2.4% for the nine-month period ended August 31, 2006, with changes in the categories being:

Net Management and Advisory Fees

The 9.9% higher average daily mutual fund AUM for the third quarter of fiscal 2006 contributed to a 6.0% increase in net management and advisory fee revenue from the corresponding period in 2005. For the nine months ended August 31, 2006, average daily mutual fund AUM was up 10.6%, contributing to a 3.9% increase in net management and advisory fee revenue as compared with the corresponding period in 2005. Management and advisory fee revenue is reported net of distribution fees paid to limited partnerships and other third-party financing entities of $2.1 million (2005 – $3.1 million) for the three months ended August 31, 2006 and $7.7 million (2005 – $10.0 million) for the nine months ended August 31, 2006. Average mutual fund AUM includes Harmony, our fast-growing tailored investment product. However, Harmony revenues are recorded in the administration fees and other revenue line, which is discussed below.

Harmony made up 7.3% of the average daily AUM in the three months ended August 31, 2006 and 7.0% of the average daily AUM for the nine months ended August 31, 2006. Excluding the Harmony AUM, the period-over-period percentage change in net management and advisory fees is comparable to the remaining average daily mutual fund AUM.

Administration Fees and Other Revenue
Strong growth in AUM resulted in administration fees and other revenue, which includes fees earned on Harmony, institutional and private investment management AUM, increasing by 15.3% for the three months ended August 31, 2006 as compared with the corresponding period in 2005. Administration fees and other revenue increased by 22.1% for the nine months ended August 31, 2006 as compared with the corresponding period in 2005.

Deferred Sales Charges
We receive Deferred Sales Charges (DSC) upon redemption of securities sold on the contingent DSC or 'back-end' commission basis for which we financed the selling commissions paid to the dealer. The DSC revenue is generally 5.5% of the original subscription price of the funds purchased if the funds are redeemed within the first two years and declines to zero after seven years. DSC revenue fluctuates based on the level of redemptions, the age of the assets being redeemed and the proportion of redemptions composed of back-end assets. DSC revenues for the three and nine months ended August 31, 2006 decreased by 35.6% and 31.3%, respectively, from the corresponding periods in 2005, reflecting lower retail mutual fund redemptions of DSC AUM that are less than seven years in age.

Investment Income
Investment income was negative $0.1 million for the three months ended August 31, 2006 compared with $5.4 million for the three months ended August 31, 2005. This negative investment income is primarily due to the impact of capital losses on redemption of mutual fund seed capital. In the prior year, we recorded capital gains on the redemption of mutual fund seed capital. Investment income was $2.0 million for the nine months ended August 31, 2006 compared with $5.8 million for the nine months ended August 31, 2005.

Expenses

For the three- and nine-month periods ended August 31, 2006, expenses increased by 16.0% and 17.9%, respectively, from the prior-year periods. Changes in specific categories are described in the discussion that follows.

Selling, General and Administrative Expenses
Selling, general and administrative expenses (SG&A) for the three- and nine-month periods ended August 31, 2006 were $44.1 million and $124.1 million, respectively, representing a 19.8% and 26.4% increase over the comparable periods of 2005. The increase is made up of the following amounts:

	Three months ended August 31,	Nine months ended August 31,
($ millions)	2006	2006
Increase in fund absorption accrual	$ 2.3	$ 5.5
Increase in stock option expense	0.3	1.2
Increase in compensation related expenses	2.6	9.0
IT costs related to transition of services from Citifinancial	0.0	1.0
Additional facilities and other staff related cost	2.0	4.4
System enhancements for sales & marketing initiatives	0.1	3.4
Increase in PIM salaries and bonuses	0.3	1.6

The increase in fund absorption accrual is a result of the management expense ratio cap on all of our funds to the lower of the amount incurred in 2004 and 2005. For the remainder of 2006, the amount of absorption incurred will depend on the level of mutual fund AUM and expenses incurred by each of the funds at their September 30, 2006 year-end. Additional facilities and other staff-related costs related to increased staffing levels and the repatriation of our Information Technology Services Group. Systems enhancements with respect to sales and marketing initiatives have been designed to make AGF easier to do business with and more responsive to our clients' needs.

Trailing Commissions

Trailing commissions paid to investment dealers are dependent on total AUM, the proportion of mutual fund AUM sold on a front-end versus back-end commission basis, and the proportion of equity fund AUM versus fixed-income fund AUM. Annualized trailing commissions as a percentage of average daily mutual fund AUM increased to 0.540% for the three months ended August 31, 2006 from 0.516% in the comparable 2005 period. For the nine months ended August 31, 2006, annualized trailing commissions as a percentage of average daily mutual fund AUM increased to 0.518% from 0.512% in the 2005 period. The changes are due to an increased proportion of mutual fund AUM sold on a front-end basis and a change in the mix of assets toward managed products, such as Harmony and Elements, which generally have higher trailers.

Investment Advisory Fees

External investment advisory fees decreased by 1.5% for the three-month period ended August 31, 2006, and increased 1.5% for the nine-month period ended August 31, 2006 compared with the prior-year periods. These amounts reflect the underlying AUM managed by sub advisors.

EBITDA

EBITDA for the Investment Management Operations segment was $49.2 million for the three months ended August 31, 2006, a decrease of 18.8% from $60.6 million for the same period of fiscal 2005. For the nine months ended August 31, 2006, EBITDA was $159.4 million compared with $186.1 million in the prior-year period, representing a decrease of 14.3%.

EBITDA Margin

For the three and nine months ended August 31, 2006, the EBITDA margin for the Investment Management Operations segment was 37.4% and 40.2%, respectively, compared with 46.0% and 48.1% for the same periods in 2005. The EBITDA margin in the Investment Management Operations segment declined because expenses increased at a greater rate than revenue. In addition, lower redemptions resulted in DSC revenue declining compared with prior periods.

Amortization

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

We internally finance all selling commissions paid. These selling commissions are capitalized and are amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule. Amortization expense related to deferred selling commissions was $27.0 million and $81.4 million for the three and nine months ended August 31, 2006, respectively, compared with $27.8 million and $84.8 million for the comparable periods in 2005.

During the third quarter of fiscal 2006, we paid $21.7 million in selling commissions, compared with $12.7 million in 2005. As at August 31, 2006, the unamortized balance of deferred selling commissions stood at $267.5 million, a decrease of $7.5 million from the November 30, 2005 balance of $275.0 million. The contingent DSC that would be received if all of the DSC securities were redeemed at August 31, 2006 were estimated to be approximately $354.3 million (2005 – $386.8 million).

Comparison to Three Months Ended May 31, 2006

A comparison of our results for the three months ended August 31, 2006 to the three months ended May 31, 2006 is meaningful to understand what is happening in the Investment Management Operations segment as we successfully execute our strategy of revitalizing the retail mutual fund operations and invest for growth.

Revenue

Revenues of $131.7 million for the three months ended August 31, 2006 declined $5.0 million from the $136.7 million of revenues reported for the three months ended May 31, 2006. Of this decrease, $2.6 million related to the impact of declining markets and the fact that average AUM was down quarter-over-quarter. This underscores the impact of the stock market to the revenue of investment management firms. In addition, we saw DSC charge revenues decline as redemptions on mutual funds declined from $1.1 billion in the three months ended May 31, 2006 to $890 million for the three months ended August 31, 2006. Although the trend in deferred sales charge revenue has negative short-term implications, we are pleased with this trend.

Expenses

Total expenses increased by $2.6 million for the three-month period ended August 31, 2006 as compared with the three-month period ended May 31, 2006. The following items explain the increase:

- Higher average AUM resulted in higher trailer fees of $0.6 million.
- Selling, general and administrative expenses increased by $2.7 million, with the increase largely attributable to increased sales compensation reflecting the improved mutual fund sales results.
- The increases were offset by a reduction in third party investment advisory fees of $0.7 million.

Overall the combination of reduced revenue and higher expenses resulted in reduced EBITDA when comparing the two sequential quarters. We are confident that these financial results reflect the progress made in executing our growth strategy.

Trust Company Operations

Business and Industry Profile

Through AGF Trust we offer financial solutions including mortgages and consumer loans. We offer mortgages to Canadians who have sound credit but in some cases have not met the requirements of Canada's large banks to qualify for their lowest-rate mortgage products. This alternative mortgage space is underdeveloped and fragmented, which makes it a very attractive market. In addition to the strong secular demand created by an underserved market, demand has recently been underpinned by low interest rates and healthy housing prices. Mortgage products are distributed primarily through mortgage brokers. The mortgage broker channel also has experienced strong growth. Borrowers have chosen to deal with mortgage brokers to take advantage of independent advice and competitive rates, while lenders have provided mortgages in this channel to reduce distribution costs.

AGF Trust consumer loans consist of investment loans and RSP loans distributed through financial advisors. The market for these products is healthy and growing due to the efforts of financial advisors who continue to broaden their suite of products as they service the needs of their customers.

Segment Strategy and Highlights

We strive to earn a high financial return as well as maximize synergies with the Investment Management Operations segment. Specific strategies include

- expanding geographically within Canada (currently, the majority of our mortgage business is in Ontario)
- introducing new products that directly serve advisor needs
- implementing effective, targeted marketing
- using disciplined loan-underwriting standards and controlling cost

In the third quarter of 2006, we continued to expand our dedicated sales staff to promote investment lending and mortgage products. The expansion of the sales force in Alberta and BC has contributed to strong mortgage volume growth during the quarter, and loans outside of AGF Trust's traditional Ontario market now account for approximately 20% of mortgage balances. A Home Equity Line of Credit (HELOC) program was rolled out during the quarter, after a successful pilot during the prior period. The HELOC program is distributed via the advisor channel and represents a synergy between the mortgage business and the core mutual fund franchise. HELOC loans are secured by a mortgage registered against the borrower's home.

AGF Trust also continued to support AGF investment management wholesalers with the aim to make it easier for AGF wholesalers to serve their clients and promote trust products to advisors. A targeted investment loan offering was introduced for the May through August period, and has been successful at driving business volumes for both AGF Trust and Investment Management Operations. AGF Trust will continue to maximize operational synergies with our investment management business through trust products that assist financial advisors in broadening and deepening their relationship with their clients. In addition, we will focus on expanding returns by increasing our consumer and mortgage loan portfolios.

We expect that execution of AGF Trust's stated strategy will result in continued growth. Our growth plans require investing in product development initiatives and expanding our sales and administrative teams. As a result, non-interest expenses may rise more than the corresponding increase in total interest margin over the fourth quarter of 2006.

Securitization Transaction

On February 28, 2006, AGF Trust Company securitized $218.4 million of RSP loans through the sale of these loans to a securitization trust. As at August 31, 2006, the balance outstanding of securitized loans was equal to $175.7 million.

When RSP loan receivables are securitized, the transaction is recognized as a sale. Based on assumptions such as prepayments and expected credit losses, a gain or loss on sale of the loan receivables is recognized immediately in income. The related loan assets are removed from the consolidated balance sheet. As part of the securitization, certain financial assets are retained and a servicing liability is incurred. Each quarter, an amount will be included in the financial results of AGF Trust Company that relates to the amortization of retained interest and servicing liability as well as any change in assumptions.

Financial and Operational Results

The Trust Company Operations segment results for the three and nine months ended August 31, 2006 and August 31, 2005 are as follows:

	Three months ended August 31,			Nine months ended August 31,		
($ millions)	2006	2005	% change	2006	2005	% change
Interest, administration fees and other revenue	$ 36.6	$ 18.1	102.2%	$ 94.7	$ 46.7	102.8%
Securitization gains and related items	0.7	0.0	n/m	11.4	0.0	n/m
	37.3	18.1	106.1%	106.1	46.7	127.2%
Expenses						
Selling, general and administrative	7.8	4.4	77.3%	21.4	12.4	72.6%
Interest expense	21.6	8.1	166.7%	53.9	20.9	157.9%
Provision for loan losses	1.8	1.1	63.6%	6.1	3.8	60.5%
	31.2	13.6	129.4%	81.4	37.1	119.4%
EBITDA[1]	6.1	4.4	38.6%	24.7	9.6	157.3%
Amortization	0.3	0.2	50.0%	0.8	0.7	14.3%
Income before taxes and non-segmented items	$ 5.8	$ 4.2	38.1%	$ 23.9	$ 8.9	168.5%
Interest, administration fees and other revenue	36.6	18.1	102.2%	94.7	46.7	102.8%
Administration fees and other revenue	1.7	0.9	88.9%	3.5	2.5	40.0%
Total interest income	34.9	17.2	102.9%	91.2	44.2	106.3%
Total interest expense	21.6	8.1	166.7%	53.9	20.9	157.9%
Total interest margin	13.3	9.1	46.2%	37.3	23.3	60.1%

[1] As previously defined, see the 'Key Performance Indicators and Non-GAAP Measures – EBITDA' section. The items required to reconcile EBITDA to net income, a defined term under Canadian GAAP, are detailed above.

Revenue

Total interest, administration fees and other revenue increased by 102.2% during the third quarter of 2006 relative to the third quarter of 2005. Increased revenue is a result of higher loan balances and a higher average prime rate of interest. The mortgage loan portfolio increased 81.6% year-over-year and the consumer loan portfolio was up 50.3%. Overall, margins have been slightly below 2005 levels. RSP loan margins are lower because the portfolio is composed of a higher percentage of short-term loans, which typically have lower margins.

Selling, General and Administrative Expenses

The increases in SG&A expenses of 77.3% and 72.6%, respectively, for the three- and nine-month periods ended August 31, 2006 over the respective periods in 2005, resulted from the significant increase in lending volumes, including hiring of additional employees. The Trust Company has also spent money to implement growth strategies aimed at increasing the future level of business.

Provision for Loan Losses

The total provision for loan losses increased by 63.6% in the third quarter of 2006, as compared with the third quarter of 2005, and increased by 60.5% for the nine-month period ended August 31, 2006 compared with the same period in 2005. The increase is attributable to the increase in our loan portfolios. The rate of growth in the provision has been muted by the shift in the business mix towards a higher percentage of lower-risk investment loans in the consumer loan portfolio, partially offset by a higher percentage of conventional mortgages in the mortgage book.

EBITDA

Strong asset growth resulted in EBITDA growing 38.6% in Q3 2006 over the same period last year. The securitization of the RSP loan portfolio in Q2 2006 influenced the increase in EBITDA of 157.3% for the nine-month period ended August 31, 2006.

Operational Performance

The table below highlights our key operational measures for the Trust Company Operations segment for the three and nine months ended August 31, 2006 and August 31, 2005.[1]

	Three months ended August 31,			Nine months ended August 31,		
($ millions)	2006	2005	% change	2006	2005	% change
Mortgage loan assets						
Insured loans	$ 379.9	$ 277.0	37.1%	$ 379.9	$ 277.0	37.1%
Conventional loans	431.2	201.0	114.5%	431.2	201.0	114.5%
HELOCs	57.1	0.0	n/m	57.1	0.0	n/m
	868.2	478.0	81.6%	868.2	478.0	81.6%
Consumer loan assets						
Investment loans	784.6	389.3	101.5%	784.6	389.3	101.5%
RSP loans	324.7	349.0	(7.0%)	324.7	349.0	(7.0%)
Other loans	14.1	9.0	56.7%	14.1	9.0	56.7%
	1,123.4	747.3	50.3%	1,123.4	747.3	50.3%
Other assets (includes cash)	348.0	50.3	591.8%	348.0	50.3	591.8%
Total assets	$ 2,339.6	$ 1,275.6	83.4%	$ 2,339.6	$ 1,275.6	83.4%
Net interest income	$ 13.3	9.1	46.2%	$ 37.3	$ 23.3	60.1%
Securitization gains and related items	0.7	0.0	n/m	11.4	0.0	n/m
Other income	1.7	0.9	88.9%	3.5	2.5	40.0%
Non-interest expenses	8.0	4.7	70.2%	22.2	13.1	69.5%
Provision for loan losses	1.8	1.1	63.6%	6.1	3.8	60.5%
Income before taxes and non-segmented items	$ 5.9	$ 4.2	40.5%	$ 23.9	$ 8.9	168.5%
Efficiency ratio[2]	51.0%	47.0%		42.5%	50.8%	
Assets-to-capital multiple	15.1	13.4		15.1	13.4	

[1] Loan balances are as at August 31, 2006. Income and expense amounts are for the period ended August 31, 2006.

[2] The efficiency ratio is calculated by dividing non-interest expenses by the total of net interest income and non-interest income.

Loan Asset Growth

Loan assets experienced substantial growth during the third quarter of 2006. Mortgages, RSP loans and investment loan advances were higher during the third quarter of 2006, compared with the prior-year period.

RSP loan balances were reduced by $175 million during the nine months ended August 31, 2006 as a result of the securitization transaction.

Efficiency Ratio

The efficiency ratio (non-interest expenses divided by the total of net interest income and non-interest income) is a key industry performance indicator utilized to ensure expenses are contained as the Trust business grows. The efficiency ratio increased to 51.0% in the third fiscal quarter of 2006 from 46.0% during the comparable quarter in 2005. The efficiency ratio for the nine-month period ended August 31, 2006 declined to 42.5% from 50.8% during the comparable period in 2005 primarily due to the impact of the RSP loan securitization.

Balance Sheet

Our balance sheet has grown significantly during the past year, with our financial position remaining solid. Total assets increased 83.4% from August 31, 2005 to $2.4 billion at August 31, 2006. Our assets-to-capital multiple stood at 15.1 times, up from 13.4 times at August 31, 2005, and below our authorized multiple of 17.5 times. Our risk-based capital ratio was 10.5% at August 31, 2006 (August 31, 2005 – 10.5%). Liquid assets, included in Other assets above, were equal to $283.8 million in cash and cash equivalents at August 31, 2006 (August 31, 2005 – $31.9 million).

Loan Portfolio Credit

Portfolio credit quality remains consistent as at August 31, 2006, compared with August 31, 2005. Due to higher loan balances, the general allowance for mortgage and HELOC loan losses was increased to $4.1 million from $2.0 million at August 31, 2005. The general allowance for consumer loan losses was increased to $4.6 million from $4.1 million a year ago.

We have strong security for non-RSP investment loans and loan losses during the history of the program have been minimal. The losses to date on the RSP loan program have been consistent with management's expectations.

Liquidity and Capital Resources

Cash flow generated from continuing operating activities (before net change in non-cash balances related to operations) was $61.7 million and $166.1 million, respectively, for the three and nine months ended August 31, 2006, respectively, compared with $53.9 million and $169.4 million in the comparable periods of 2005.

Free cash flow (defined as cash flow from operations less selling commissions paid) was $40.0 million and $92.2 million, respectively, for the three and nine months ended August 31, 2006, respectively, compared with $41.2 million and $124.6 million in the comparable periods of 2005. Cash flow and our bank facility were used primarily to fund the following:

	Three months ended August 31,		Nine months ended August 31,	
($ millions)	2006	2005	2006	2005
Payment of dividends	$ 16.0	$ 13.5	$ 45.5	$ 37.1
Repurchase of AGF Class B non-voting shares for cancellation	0.0	15.3	15.9	33.2
Acquisitions	3.9	3.9	4.1	5.4
Purchase of property and equipment	3.6	2.1	9.4	3.4
Investments	5.3	19.2	9.7	22.1
Debt repayment	3.4	0.0	3.4	0.0
Investment in Trust Operations (eliminated on consolidation)	15.5	5.0	49.5	33.0
	$ 47.7	$ 59.0	$ 137.5	$ 134.2

Cash and cash equivalents increased by $144.2 million from November 30, 2005 (August 31, 2005 – decrease of $83.5 million) primarily due to an increase in cash in the Trust Company Operations segment. The investment in Trust Company Operations is eliminated on consolidation; however, it represents a transfer of cash from our cash and cash equivalents balance shown as supplemental information on the Consolidated Statements of Cash Flow to the Trust Company Operations' cash and cash equivalents balance. In periods in which the Company has a free cash flow deficiency, these amounts will be financed by increasing our bank indebtedness.

During the quarter, we did not repurchase any Class B Non-Voting Shares of AGF (August 31, 2005 – repurchase of $15.3 million). The Class B Non-Voting Shares issued relate to stock options exercised and dividends reinvested. Consolidated cash and cash equivalents amounted to $304.2 million at August 31, 2006, compared with $160.0 million at November 30, 2005 and $34.6 million at August 31, 2005 primarily as a result of cash held by the Trust Company Operations segment.

We have a six-year prime-rate-based revolving term loan facility to a maximum of $200.0 million, of which $152.5 million was available to be drawn as of August 31, 2006. To date, we have utilized short-term borrowings under our credit facility. With the trend in gross sales improving and the Trust Company Operations segment requiring substantial investments, we will look to finance any free cash flow deficiency with longer-term bankers' acceptances and categorize any amount with repayment terms in excess of 12 months as long term. This facility will be available to meet future operational and investment needs. We anticipate that cash flow from operations, together with the available loan facility, will be sufficient in the foreseeable future to implement our business plan, finance selling commissions, satisfy regulatory requirements, service debt repayment obligations, meet capital spending needs and pay quarterly dividends.

Dividends

For the three months ended August 31, 2006, we declared an 18-cents-per-share dividend on Class A Voting Common and Class B Non-Voting Shares, compared with a 15-cents-per-share dividend for the three months ended August 31, 2005. This dividend will be payable on October 20, 2006 to shareholders of record on October 10, 2006.

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

Our Board of Directors may determine that the 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. In determining whether a dividend in Class B Non-Voting Shares is substantially equal to a cash dividend, the Board of Directors may make a determination based on the weighted average price at which the Class B Non-Voting Shares traded on the Toronto Stock Exchange during the 10 trading days immediately preceding the record date applicable to such dividend.

The following table sets forth the dividends paid by AGF on the Class B Non-Voting Shares and the Class A Voting Common Shares for the periods indicated:

Years Ended November 30	**2005**	**2004**	**2003**	**2002**	**2001**
Per share	$ 0.560	$ 0.410	$ 0.295	$ 0.255	$ 0.220
Percentage increase	37%	39%	16%	16%	22%

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

Outstanding Share Data

Set out below is our outstanding share data as at August 31, 2006 and August 31, 2005. For additional details, see Note 10 of the Consolidated Financial Statements.

	2006	**2005**
Shares		
Class A Voting Common Shares	57,600	57,600
Class B Non-Voting Shares	89,109,269	89,067,430
Stock Options		
Outstanding options	3,648,833	4,245,954
Exercisable options	1,514,833	1,647,028

Selected Quarterly Information

($ millions, except per share amounts) **For the three month period ended**	**Aug. 31 2006**	**May 31, 2006**	**Feb. 28, 2006**	**Nov. 30, 2005**
Revenue (continuing operations)	$ 172.6	$ 174.2	$ 169.2	$ 148.6
Cash flow from continuing operations[1]	61.7	54.3	50.1	47.8
EBITDA (continuing operations)[2]	56.1	65.6	68.7	50.9
Pretax income (continuing operations)	21.7	31.0	34.4	16.1
Net income	34.6	33.0	24.1	28.0
Earnings per share				
Basic	$ 0.40	$ 0.37	$ 0.27	$ 0.31
Diluted	$ 0.39	$ 0.37	$ 0.27	$ 0.31
Weighted average basic shares	89,055,124	89,006,146	89,190,007	89,203,949
Weighted average fully diluted shares	89,457,921	89,973,999	90,031,001	89,868,786

($ millions, except per share amounts) **For the three month period ended**	**Aug. 31, 2005**	**May 31, 2005**	**Feb. 28, 2005**	**Nov. 30, 2004**
Revenue (continuing operations)	$ 153.0	$ 147.1	$ 145.7	$ 143.4
Cash flow from operations[1]	53.9	57.6	56.9	13.6
EBITDA (continuing operations)[2]	65.3	63.7	65.0	19.8
Pretax income (continuing operations)	29.6	27.4	28.7	(17.6)
Net income (loss)	20.3	22.4	21.2	(8.1)
Earnings (loss) per share				
Basic	$ 0.23	$ 0.25	$ 0.23	$ (0.08)
Diluted	$ 0.23	$ 0.25	$ 0.23	$ (0.09)
Weighted average basic shares	89,615,145	90,553,323	90,739,413	90,737,430
Weighted average fully diluted shares	89,915,619	90,886,073	91,085,474	91,798,233

[1] Cash flow from operations before net change in non-cash balances related to operations.

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

Additional Information

Additional information relating to the Company can be found in our Consolidated Financial Statements and accompanying notes for the three and nine months ended August 31, 2006, our 2005 annual MD&A and Consolidated Financial Statements, our 2005 AIF and other documents filed with applicable securities regulators in Canada, and may be accessed at www.sedar.com.

(in thousands of dollars) (unaudited)	August 31, 2006	November 30, 2005 (audited, note 3)
Assets		
Current Assets		
Cash and term deposits	$ 304,187	$ 159,974
Short-term investments	11,984	23,105
Current portion of retained interest from securitization (note 2)	5,134	–
Accounts receivable and prepaid expenses	87,202	50,086
Mortgages and consumer loans due within one year (note 8(a))	417,767	315,987
	826,274	549,152
Mortgages and consumer loans (note 8(a))	1,573,819	1,079,280
Retained interest from securitization (note 2)	24,575	–
Investment in associated company (note 5)	103,225	96,000
Other investments	5,591	7,142
Management contracts	478,749	478,749
Customer contracts, relationships and investment advisory contracts, net of accumulated amortization	63,819	75,281
Deferred selling commissions, net of accumulated amortization	267,489	275,015
Property and equipment, net of accumulated amortization	21,662	21,639
Goodwill (note 6)	126,399	126,183
Other assets	1,408	1,226
	$ 3,493,010	$ 2,709,667
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 146,636	$ 95,197
Long-term debt due within one year (note 9)	47,500	8,277
Income taxes payable	–	14,252
Deposits due within one year (note 8(c))	752,712	467,317
	946,848	585,043
Deposits (note 8(c))	1,343,618	940,435
Long-term debt (note 9)	–	17,364
Participation units (note 9(c))	–	6,157
Future income taxes	235,799	242,188
Leasehold inducements	134	154
	2,526,399	1,791,341
Shareholders' Equity		
Capital stock (note 10)	402,252	394,154
Contributed surplus (note 10(d))	9,340	5,900
Retained earnings	560,664	527,197
Foreign currency translation adjustment	(5,645)	(8,925)
	966,611	918,326
	$ 3,493,010	$ 2,709,667

(See accompanying notes to consolidated financial statements.)

(See accompanying notes to consolidated financial statements.)

(in thousands of dollars) (unaudited)	Three months ended August 31, 2006	Three months ended August 31, 2005 (note 3)	Nine months ended August 31, 2006	Nine months ended August 31, 2005 (note 3)
Revenue				
Net management and advisory fees	$ 106,598	$ 100,549	$ 317,893	$ 305,881
Administration fees, interest and other revenue	60,345	39,003	166,354	105,624
Deferred sales charges	5,606	8,725	19,980	29,128
Gain on sale of RSP loan securitization and related income (note 2)	730	–	11,395	–
(Loss)/gain on sale of short-term investments	(984)	4,478	(984)	4,478
Investment income	303	284	1,359	649
	172,598	153,039	515,997	445,760
Expenses				
Selling, general and administrative	55,291	44,938	154,493	125,112
Trailing commissions	31,980	27,835	92,237	82,517
Investment advisory fees	6,417	6,436	20,436	20,157
Amortization of deferred selling commissions	27,002	27,800	81,396	84,805
Amortization of customer contracts, relationships and investment advisory contracts	3,821	3,726	11,462	11,079
Amortization of property and equipment	2,922	2,767	8,476	8,185
Interest on Trust Company deposits	21,068	7,446	52,302	20,219
Interest expense	645	1,313	1,982	4,150
Provision for Trust Company loan losses	1,774	1,157	6,096	3,838
	150,920	123,418	428,880	360,062
Income from continuing operations before income taxes	21,678	29,621	87,117	85,698
Income taxes				
Current	(3,345)	11,278	21,522	28,727
Future (note 12)	(10,446)	(2,415)	(15,681)	(3,693)
	(13,791)	8,863	5,841	25,034
Net income from continuing operations for the period	35,469	20,758	81,276	60,664
Gain on repayment of debt, net of taxes (note 9(c))	–	–	13,309	–
Loss on sale of discontinued operations, net of income taxes (note 3)	(837)	–	(2,887)	–
Net earnings (loss) from discontinued operations for the period (note 3)	–	(464)	–	3,166
Net income for the period	$ 34,632	$ 20,294	$ 91,698	$ 63,830
Earnings Per Share (note 10(f))				
Basic from continuing operations	$ 0.40	$ 0.23	$ 0.91	$ 0.67
Diluted from continuing operations	$ 0.40	$ 0.23	$ 0.90	$ 0.67
Basic	$ 0.39	$ 0.23	$ 1.03	$ 0.71
Diluted	$ 0.39	$ 0.23	$ 1.02	$ 0.70

(in thousands of dollars) (unaudited)	Three months ended August 31, 2006	Three months ended August 31, 2005 (note 3)	Nine months ended August 31, 2006	Nine months ended August 31, 2005 (note 3)
Retained earnings, beginning of period	$ 542,076	$ 523,291	$ 527,197	$ 517,681
Net income for the period	34,632	20,294	91,698	63,830
	576,708	543,585	618,895	581,511
Deduct:				
Dividends on AGF Class A Voting Common Shares and AGF Class B Non-Voting Shares	16,044	13,518	45,474	37,120
Excess paid over book value of AGF Class B Non-Voting Shares purchased for cancellation (note 10(c))	–	13,003	12,757	27,327
	16,044	26,521	58,231	64,447
Retained earnings, end of period	$ 560,664	$ 517,064	$ 560,664	$ 517,064

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Cash Flow

(in thousands of dollars) (unaudited)	Three months ended August 31, 2006	Three months ended August 31, 2005 (note 3)	Nine months ended August 31, 2006	Nine months ended August 31, 2005 (note 3)
Operating Activities				
Net income for the period	$ 34,632	$ 20,294	$ 91,698	$ 63,830
Loss on sale of discontinued operations, net of income taxes	837	–	2,887	–
Net earnings (loss) from discontinued operations	–	464	–	(3,166)
	35,469	20,758	94,585	60,664
Items not affecting cash				
Amortization of deferred selling commissions	27,002	27,800	81,396	84,805
Amortization of customer contracts, relationships and investment advisory contracts	3,821	3,726	11,462	11,079
Amortization of property and equipment	2,922	2,767	8,476	8,185
Future income taxes	(10,446)	(2,415)	(15,681)	(3,693)
Gain on sale of RSP loan securitization	–	–	(9,850)	–
Gain on early retirement of debt, net of income taxes	–	–	(13,309)	–
Loss (gain) on sale of short-term investments	984	(4,478)	984	(4,478)
Mark-to-market on swap transactions	(121)	(382)	(354)	(652)
Provision for AGF Trust Loan Losses	1,774	1,157	6,096	3,838
Other	287	4,944	2,329	9,686
	61,692	53,877	166,134	169,434
Net increase (decrease) in non-cash balances related to operations	6,346	10,719	(14,900)	3,217
Net cash provided by continuing operating activities	68,038	64,596	151,234	172,651
Net cash provided by discontinued operating activities	–	4,383	–	12,608
Net cash provided by operating activities	68,038	68,979	151,234	185,259
Financing Activities				
Purchase of Class B non-voting shares for cancellation	–	(15,321)	(15,866)	(33,202)
Issuance of Class B non-voting shares	3,154	–	8,607	–
Dividends paid on Class A and Class B shares	(16,044)	(13,518)	(45,474)	(37,120)
Increase in bank loan	8,500	4,150	47,500	3,450
Retirement of debt	(3,360)	–	(3,360)	–
Net decrease in other long-term debt	–	(167)	(1,324)	(1,153)
Increase in Trust Company deposits	251,814	136,997	688,578	395,097
Net cash provided by continuing financing activities	244,064	112,141	678,661	327,072
Net cash used in discontinued financing activities	–	(244)	–	(1,530)
Net cash provided by financing activities	244,064	111,897	678,661	325,542
Investing Activities				
Deferred selling commissions paid	(21,691)	(12,657)	(73,870)	(44,824)
Proceeds of RSP loan securitization	–	–	206,274	–
Purchase of management contracts and customer relationships	–	(9,104)	–	(9,104)
Acquisition of subsidiaries	(3,900)	(3,900)	(4,116)	(5,376)
Payments associated with sale of discontinued operations	(193)	–	1,985	–
Purchase of property and equipment	(3,563)	(2,139)	(9,399)	(3,438)
Purchase of investments	(5,322)	(19,154)	(9,658)	(22,086)
Proceeds on sale of investments	18,944	23,373	22,135	23,373
Increase in Trust Company mortgages and consumer loans	(293,766)	(177,589)	(819,033)	(521,743)
Net cash used in continuing investing activities	(309,491)	(201,170)	(685,682)	(583,198)
Net cash used in discontinued investing activities	–	(278)	–	(2,899)
Net cash used in investing activities	(309,491)	(201,448)	(685,682)	(586,097)
Increase (decrease) in cash and cash equivalents	2,611	(20,572)	144,213	(75,296)
Balance of cash and cash equivalents, beginning of period	301,576	64,081	159,974	118,805
Balance of cash and cash equivalents, end of period	$ 304,187	$ 43,509	$ 304,187	$ 43,509
Cash and cash equivalents related to:				
Continuing operations			$ 304,187	$ 34,642
Discontinued operations			–	8,867
			$ 304,187	$ 43,509
Represented by:				
Investment management and other cash and cash equivalents			$ 20,405	$ 11,629
Trust Company cash and cash equivalents			283,782	31,880
			$ 304,187	$ 43,509

Notes to Consolidated Financial Statements

For the three and nine months ended August 31, 2006 and August 31, 2005 (tabular amounts in thousands of dollars, except per share amounts) (unaudited)

These unaudited interim consolidated financial statements of AGF Management Limited ('AGF' or the 'Company') have been prepared in accordance with Canadian generally accepted accounting principles using the same significant accounting policies as AGF's consolidated financial statements for the year ended November 30, 2005. 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, 2005, as set out in AGF's 2005 Annual Report.

As the Company concluded the sale of its wholly owned subsidiary Unisen Holdings Inc. ('Unisen') during the fourth quarter of 2005, Unisen's operations for the comparative 2005 periods presented have been reported as discontinued operations as outlined in Note 3.

Note 1: New Accounting Policies

(a) AGF Elements

In November 2005, the Company launched AGF Elements, which consists of five diversified fund of fund portfolios. If an AGF Elements portfolio does not match or outperform its customized benchmark over a three-year period, each individual investor will receive up to 90 basis points in additional units, calculated based on the value of such investment at the end of the three-year period.

The Company will include in other liabilities up to 30 basis points per year of each investor's assets under management, adjusted for redemptions, until the end of the three-year measurement period of each investment made by such investor. At that time if an individual investor's returns match or exceed the corresponding benchmark, the Company will recognize the entire amount as management fee revenue. If an individual investor's actual returns are below the customized benchmark, a corresponding amount will be distributed to the investor in the form of individual units.

(b) Accounting for Securitizations

Under AcG-12, in order for a securitization to be treated as a sale, the Company must surrender control over those loans included in the securitization. To surrender control, the securitized assets must be isolated from the Company and its creditors, even in the case of bankruptcy or receivership, and the Company must receive consideration other than the beneficial interest in the transferred assets.

In determining the gain or loss on sale, management estimates future cash flows by relying on estimates of the amount of interest that will be collected on the securitized assets, the yield paid to investors, the portion of the securitized assets that will be prepaid before their scheduled maturity, expected credit losses, the cost of servicing the assets and the rate at which to discount these expected future cash flows. Actual cash flows may differ significantly from those estimated by management. If actual cash flows are different from management's estimate of future cash flows, then the gains or losses on the securitization recognized in income will be adjusted. Note 2 provides additional disclosure regarding the securitizations and related balance sheet and income statement impacts.

(c) Adoption of AcG-15 'Consolidation of Variable Interest Entities'

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

The Company has reviewed its relationships and determined that there are no entities whose financial results would be required to be included or disclosed in the consolidated results for the three and nine months ended August 31, 2006 and 2005.

(d) Accounting for Restricted Share Units

During the quarter, the Company established a Restricted Share Unit ('RSU') plan for senior employees under which certain employees were granted RSUs of AGF Class B Non-Voting Shares. The RSUs vest after three years provided the employee meets certain performance criteria. On the vesting date, the Company will redeem all of the participants' RSUs in cash equal to the value of one Class B Non-Voting share for each RSU. Compensation expense is recorded equally over the vesting period, taking into account fluctuations in the market price of AGF Class B Non-Voting shares. The related liability is adjusted to the market price of the AGF Class B Non-Voting Shares at each balance sheet date and the related adjustment is recorded in income.

Note 2: Securitization of AGF Trust Loans

On February 28, 2006, the Company, through its wholly owned subsidiary AGF Trust Company, securitized $218.4 million of RSP loans through the sale of these loans to a securitization trust. Cash flows of $206.3 million were received on the securitization and a gain net of transaction fees and expenses of $9.9 million was recorded. As at August 31, 2006, $175.7 million of securitized loans were outstanding.

When RSP loan receivables are sold in securitization to a securitization trust under terms that transfer control to third parties, the transaction is recognized as a sale and the related loan assets are removed from the consolidated balance sheet. As part of the securitization, certain financial assets are retained. The retained interests are carried at cost. A gain or loss on sale of the loan receivables is recognized immediately in income. The amount of the gain or loss is determined by estimating the fair value of future expected cash flows using management's best estimates of key assumptions – excess spread, discount rate on interest-only strip, expected credit losses, prepayment rates and expected weighted average life of RSP loans – which are commensurate with the risks involved. Subsequent to the securitization, any retained interest that cannot be contractually settled in such a way that the Company can recover substantially all of its recorded investment will be adjusted to fair value. The current fair value of retained interests is determined using the present value of future expected cash flows as discussed above.

The Company has recorded retained interests of $29.7 million (February 28, 2006 - $34.0 million) made up of i) the rights to future excess interest on these RSP loans after investors in the securitization trust have received the return for which they contracted, valued at $14.9 million (February 28, 2006 - $16.6 million), ii) cash collateral of $5.6 million (February 28, 2006 - $5.4 million) and iii) over-collateralization of $9.2 million (February 28, 2006 - $12.0 million).

The impaired loans included in the securitized balances were equal to $0.8 million as of August 31, 2006 and during the three and nine months ended August 31, 2006, $0.4 million and $0.5 million of securitized RSP loans were written off.

The Company's claim on the retained interests is subordinate to investors' interests. Recourse available to investors and the securitization trust is limited to the retained interests. Cash flows of $3.1 million were received on the securitized loans during the three months ended August 31, 2006, of which $1.2 million related to the over-collateralization, and $1.9 million related to the interest-only strip. For the nine months ended August 31, 2006, cash flows of $6.9 million were received on the securitized loans of which $3.1 million related to the over-collateralization, and $3.8 million related to the interest-only strip. The total other income recognized from securitization during the three and nine months ended August 31, 2006 was $0.7 million and $1.5 million, respectively

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

Excess spread	3.8%
Discount rate on interest-only strip	7.5%
Expected credit losses	0.8%
Prepayment rate	14.0%
Expected weighted average life of RSP loans	30.4 months

The Company retained servicing responsibilities for the securitized loans. A servicing liability of $1.3 million was recorded as at August 31, 2006 (May 31, 2006 – $1.5 million). This amount represents the estimated future cost of servicing the securitized loans and has been offset against the gain on the sale of the RSP loans. The amount amortized related to the servicing liability during the three and nine months ended August 31, 2006, was $0.2 million and $0.4 million, respectively

The following table presents key economic assumptions and the sensitivity of the current fair value of retained interests to two adverse changes in each key assumption as at August 31, 2006. As the sensitivity is hypothetical, it should be used with caution. The impact of changes in the fair value of retained interests was calculated using a discounted cash flow analysis.

Fair value of retained interests	$	31,100
Discount rate		7.5%
+10%	$	(197)
+20%		(389)
Prepayment rate		14.0%
+10%	$	(263)
+20%		(519)
Expected credit losses		0.8%
+10%	$	(313)
+20%		(626)

Note 3: Discontinued Operations and Assets Held for Sale

On October 3, 2005 the Company sold 100% of wholly owned subsidiary Unisen Holdings Inc. ('Unisen') to Citifinancial Canada Inc. ('Citifinancial'), for cash consideration of US$97.5 million ($114.0 million). Expenses related to this transaction amounted to $5.0 million. The consideration was subject to two adjustments for which the Company had accrued a net amount owing to Citifinancial of $1.8 million. The two adjustments are a working capital adjustment that provides that any working capital above a threshold is payable to AGF, of which AGF received $5.1 million in the second quarter of 2006, and the purchase price is subject to a clawback should Unisen's revenue fall below a threshold during the 12-month period ended June 30, 2006. A provision of $10.3 million is included in accounts payable related to this clawback. During the three months ended August 31, 2006, the aforementioned provision was increased by $0.7 million with the increase being recorded as a loss on sale of discontinued operations net of tax of $0.1 million. In addition, a provision of $0.3 million was recorded during the quarter related to a potential tax liability, including estimated interest and penalties owed by Unisen Holdings Inc. for periods prior to October 3, 2005. This has been recorded as a loss on sale of discontinued operations net of taxes of $0.1 million. The Company has issued a put option in favour of Citifinancial relating to certain Unisen assets. The put option expires 18 months after the date of acquisition. No value has been attributed to this option, as management does not believe it will be exercised.

Concurrent with the sale of Unisen to Citifinancial, AGF has capped the management expense ratio on all of the AGF funds for three years at the lower of the actual levels reported in 2004 and 2005. In addition, the Company is committed for a 10-year period from the date of sale to reimburse Citifinancial should Citifinancial's annual revenues derived from AGF fund administration services fall below a pre-determined level.

Unisen's operations for 2005 have been reported as discontinued operations and previously reported financial statements have been reclassified to reflect the following:

Summary of discontinued operations

	Three months ended August 31, 2005	Nine months ended August 31, 2005
Revenue	$ 25,945	$ 76,458
Net earnings from discontinued operations	(464)	3,166
Basic net earnings per share	$ –	$ 0.04
Diluted net earnings per share	$ –	$ 0.03

	August 31, 2005
Current assets held for sale	
Cash and term deposits	$ 8,867
Accounts receivable and prepaid expenses	15,551
Income taxes receivable	1,293
	$ 25,711
Long-term assets held for sale	
Customer contracts	$ 33,185
Property, equipment and other intangible assets, net	25,531
Goodwill	34,755
	$ 93,471
Current liabilities related to assets held for sale	
Accounts payable and accrued liabilities	$ 19,149
Long-term debt due within one year	1,364
	$ 20,513
Long-term liabilities related to assets held for sale	
Long-term debt	$ 2,019
Future income taxes	9,220
Leasehold inducements	3,861
	$ 15,100

Note 4: Acquisition of Mutual Fund Assets from ING Investment Management Inc.

On August 5, 2005, the Company acquired the management rights to $276 million in mutual fund assets from ING Investment Management Inc. ('ING') for cash consideration of $9.1 million. Thirteen ING funds have been merged into corresponding AGF funds. The agreement also includes the acquisition of the management contract for the ING Canadian Dividend Income Fund, which has been renamed the AGF Dividend Income Fund.

The purchase price for the assets acquired was allocated as follows:

Net assets acquired		
Management contracts	$	5,081
Customer relationships		4,023
	$	9,104

The portion allocated to customer relationships is being amortized over their estimated useful life of seven years. The purchase price is also subject to a future reduction based on the level of mutual fund redemptions during the first year subsequent to acquisition. This amount will be determined and agreed upon with ING in the three-month period ended, November 30, 2006.

Note 5: Investment in Associated Company

On May 27, 2005, Smith & Williamson Holdings Limited ('S&WHL') completed the acquisition of 100% of the outstanding shares of Solomon Hare Personal Finance Limited ('SHPF') and the business of Solomon Hare LLP. The total consideration paid by S&WHL of $20.6 million included cash of $4.9 million and the issuance of 2.3 million shares valued at $15.7 million. Prior to this transaction, the Company had a 31.8% interest in S&WHL. Subsequent to the aforementioned transaction, the Company holds a 30.8% interest in S&WHL. The dilution gain with respect to the completion of this transaction was $0.1 million.

Note 6: Acquisition of P.J. Doherty & Associates Co. Ltd.

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

There was additional consideration, which became payable based on revenue growth during the two-year period subsequent to completion of the acquisition. The value attributed to customer contracts is being amortized on a straight-line basis over 15 years.

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

Net assets acquired		
Cash	$	468
Other assets		318
Customer contracts		13,015
Goodwill		3,719
Current liabilities		(233)
Future income tax		(4,701)
	$	12,586
Consideration paid (including acquisition costs)		
Cash	$	9,451
Payments subsequent to acquisition date		3,135
	$	12,586

All payments subsequent to the acquisition date have been made. The Company also paid out $0.2 million on the first and second anniversaries of the acquisition date based on revenue growth during the years. The latter two payments were recorded as an increase in goodwill.

Note 7: Acquisition of Cypress Capital Management Ltd.

On June 30, 2004, the Company acquired 100% of the shares of Cypress Capital Management Ltd. ('Cypress') for consideration of $26.1 million, including $0.1 million of acquisition costs. The acquisition has been accounted for by the purchase method of accounting, with the results of operations of Cypress included in the consolidated financial statements from the date of the acquisition. In addition to the future payments detailed below, there is also potential additional consideration due three years after the completion of the acquisition, subject to Cypress achieving certain revenue levels. These amounts are not determinable at the present time. The value attributed to customer contracts is being amortized on a straight-line basis over 15 years.

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

Net Assets Acquired		
Cash	$	351
Other assets		1,625
Customer contracts		28,480
Goodwill		7,269
Current liabilities		(1,351)
Future income tax		(10,287)
	$	26,087
Consideration Paid (including acquisition costs)		
Cash	$	7,887
285,553 AGF Class B shares issued		5,200
June 30, 2005 payment		6,500
June 30, 2006 payment		6,500
	$	26,087

The June 30, 2005 payment consisted of $3.9 million in cash and issuance of 159,696 AGF Class B Non-Voting Shares valued at $2.6 million. The June 30, 2006 payment consisted of $3.9 million in cash and issuance of 129,601 Class B Non-Voting Shares valued at $2.6 million.

Note 8: Trust Company

(a) Mortgages and Consumer Loans

The Trust Company's principal business activities are mortgages and consumer loans and deposit taking. Details relating to these activities are as follows:

The following table represents the period to contractual repricing of the interest rates on amounts outstanding. Principal repayments due on mortgages and consumer loans within one year as at August 31, 2006 were $417.8 million.

	Term to Contractual Repricing				
	Variable Rate	1 Year or Less	Greater than 1 Year	August 31, 2006	November 30 2005
Total mortgage loans	$ 60,629	$ 448,807	$ 363,112	$ 872,548	$ 552,801
Consumer loans	1,115,991	4,271	9,829	1,130,091	850,666
	1,176,620	453,078	372,941	2,002,639	1,403,467
Less: allowance for loan losses				11,053	8,200
				$ 1,991,586	$ 1,395,267
Impaired loans included in above				12,141	5,199
Less: specific allowance for loan losses				2,389	1,488
				$ 9,752	$ 3,711

	Three months ended August 31, 2006	Nine months ended August 31, 2006
The change in allowance for loan losses is as follows:		
Balance, beginning of period	$ 9,994	$ 8,200
Amounts written-off	(898)	(1,782)
Recoveries	183	309
Reduction due to RSP loan securitization	–	(1,770)
Provision for loan losses	1,774	6,096
Balance, end of period	$ 11,053	$ 11,053

As at August 31, 2006, the Company's non-Home Equity Line of Credit ('HELOC') mortgage portfolio, which represents approximately 93% of total mortgage loans consisted of a combination of fixed rate and variable rate residential mortgages with a weighted average term to repricing of 1.6 years (2005 – 1.2 years) and a weighted average yield of 6.48% (August 31, 2005 – 5.77%). Of the total mortgage portfolio, $379.9 million is insured (August 31, 2005 – $277.0 million). Consumer loans and HELOC portfolio loans have interest rates that are generally based on prime. At quarter-end, the average interest rate on consumer loans was 7.43% (August 31, 2005 – 6.03%).

(b) Interest Rate Swap Transactions

To hedge its exposure to fluctuating interest rates, AGF Trust Company has entered into interest rate swap transactions with four Canadian chartered banks as noted below. The swap transactions expire between September 30, 2006 and July 31, 2011 and involve the exchange of either the one-month bankers' acceptance rate or the three-month bankers' acceptance rate, to receive fixed interest rates. As at August 31, 2006, the aggregate notional amount of the swap transactions was $1,449.7 million (August 31, 2005 – $769.7 million). The aggregate fair value of the swap transactions, which represents the amount that would be paid by AGF Trust Company if the transactions were terminated at August 31, was $3.5 million (August 31, 2005 – AGF Trust would have received $11.0 million).

Notional Amount of Swap	Maturity Date	Fixed Interest Rate Received
$ 107,000	2006	3.26% - 3.91%
373,700	2007	3.00% - 5.11%
337,000	2008	3.17% - 4.68%
242,000	2009	3.47% - 4.66%
250,000	2010	3.62% - 4.78%
140,000	2011	4.15% - 4.86%

(c) Trust Company Deposits

	Total Term to Maturity				
	Demand	1 Year or Less	1 to 5 Years	August 31, 2006	November 30, 2005
Deposits	$ 7,617	$ 698,766	1,389,947	$ 2,096,330	$ 1,407,752

Deposits with a maturity date within one year have been classified as current liabilities. As at August 31, 2006, deposits consisted substantially of guaranteed investment certificates with a weighted average term to maturity of 2.0 years (2005 – 2.0 years) and a weighted average interest rate of 3.99% (August 31, 2005 – 3.64%).

Note 9: Long-Term Debt

	August 31, 2006	November 30, 2005
Revolving term loan	$ 47,500	$ –
Payment re Consort Information Systems Limited due January 31, 2006	–	1,067
Notes payable due April 30, 2013	–	18,074
Cypress payment due June 30, 2006	–	6,500
	47,500	25,641
Less: amount included in current liabilities	47,500	8,277
	$ –	$ 17,364

(a) Revolving Term Loan

The Company has arranged a six-year prime-rate-based revolving term loan to a maximum of $200.0 million with a Canadian chartered bank. Under the loan agreement, the Company is permitted to draw down the revolving term loan by direct advances and/or bankers' acceptances (BAs). The revolving term loan is available at any time for a period of 364 days from commencement of the loan (the 'Commitment Period'). The expiration of the current commitment period is June 30, 2007. However, the Company may request by April 15, 2007, and prior to April 15 in any calendar year thereafter, a recommencement of the six-year term at the expiry of the then-current commitment period. No repayment of the principal amount outstanding pursuant to the revolving term loan is required during the first three years of the then-applicable term. Thereafter, the loan balance shall be repaid in minimum monthly instalments of at least one-thirty-sixth of the amount of principal outstanding.

As at August 31, 2006, the Company has drawn $47.5 million against the available loan amount in the form of a six-day bankers' acceptance at an effective average interest rate of 4.60% per year. As this loan functions as a working capital facility,
it has been included in current liabilities.

Security for the bank loans includes a specific claim over the management fees owing from the mutual funds (subject to the existing claims of related limited partnerships) for which the Company acts as manager and, depending upon the amount of the loan outstanding, an assignment of AGF's investments in 20/20 Financial Corporation and AGF International Company Limited.

(b) Payment re Consort Information Systems Limited Due January 31, 2006

In 2003 the Company, through its wholly owned subsidiary Investmaster Group Limited ('Investmaster'), acquired all the outstanding shares of Consort Information Systems Limited. Cash consideration paid was $8.3 million with an additional payment of $1.1 million due, which was paid on January 31, 2006.

(c) Notes Payable Due April 30, 2013 and Participation Units

In May 2006, the Company reached an agreement with Multi-Fund Management Inc., the manager of Multi-Fund Income Trust ('Trust'), to terminate its obligations to the Trust for a cash payment of $3.4 million. The termination of the Company's cash flow obligation was subject to a Trust Unitholder meeting, which was held on June 8, 2006. The Trust Unitholders approved the agreement and on June 12, 2006, the Company repurchased the debt related to the Trust.

Details of the gain recorded in the three months ended May 31, 2006 on repayment of debt were as follows:

		Aug 31, 2006
Notes payable due April 30, 2013	$	17,817
Participation Units		6,157
		23,974
Cash consideration paid, June 12, 2006		(3,360)
Gain on early repayment of debt		20,614
Income taxes		7,305
Gain on early repayment of debt, net of income taxes	$	13,309

Note 10: Capital Stock

(a) Authorized Capital

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

(b) Change During the Period

The change in capital stock during the three and nine months ended August 31, 2006 is summarized as follows:

	Number of shares		Amount
Class B shares			
Balance, May 31, 2006	88,783,659	$	396,499
Issued on retirement of Cypress obligation	129,601		2,600
Issued through dividend reinvestment plan	29,209		598
Stock options exercised	166,800		2,555
Balance, August 31, 2006	89,109,269	$	402,252
Class A shares			
Balance, May 31, 2006 and August 31, 2006	57,600		–
Total Capital Stock, August 31, 2006		$	402,252

	Number of shares		Amount
Class B shares			
Balance, November 30, 2005	89,123,205	$	394,154
Issued on retirement of Cypress obligation	129,601		2,600
Issued through dividend reinvestment plan	60,913		1,367
Stock options exercised	495,550		7,239
Purchased for cancellation	(700,000)		(3,108)
Balance, August 31, 2006	89,109,269	$	402,252
Class A shares			
Balance, November 30, 2005 and August 31, 2006	57,600		–
Total Capital Stock, August 31, 2006		$	402,252

(c) Class B Shares Purchased for Cancellation

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B shares through the facilities of the Toronto Stock Exchange. Present approval for such purchases extends through to February 17, 2007. Under this issuer bid, the Company may purchase up to 10% of the public float outstanding on the date of the receipt of regulatory approval or up to 7,214,698 shares. During the nine months ended August 31, 2006, 0.7 million (2005 – 2.2 million) Class B shares were purchased at a cost of $15.9 million (2005 – $36.8 million) and the excess paid of $12.8 million (2005 – $27.3 million) over the book value of the shares purchased for cancellation was charged to retained earnings. No shares were repurchased during the quarter compared to 1,000,000 shares repurchased at a cost of $17.4 million in the three months ended August 31, 2005.

(d) Stock Option Plans

Stock-based compensation

Under the CICA Handbook Section 3870, 'Stock-Based Compensation and Other Stock-Based Payments' for stock options granted on or after December 31, 2002, the fair value of stock options is determined on the grant date and recorded as compensation expense over the period that the stock options vest. During the nine months ended August 31, 2006, the Company granted 90,000 options (2005 – 1,028,000) and recorded $3.4 million (2005 – $3.1 million) in compensation expense and contributed surplus. No options were granted during the quarter. The weighted average fair value at the date of grant for options issued during the nine months ended August 31, 2006 was $6.38 per share. The following assumptions were used to determine the fair value for the options at the date of the grant using the Black-Scholes option pricing model.

Risk free interest rate	4.31%
Dividend yield	3.10%
Expected share price volatility	29.98%
Expected life	6.66 years

The change in outstanding stock options during the nine months ended August 31, 2006 and 2005 is summarized as follows:

	Number of options	Weighted average exercise price
Class B Share Options		
Balance outstanding, November 30, 2005	4,781,875	$ 18.72
Options granted	90,000	$ 22.98
Options cancelled	(727,492)	$ 20.86
Options exercised	(495,550)	$ 14.61
Balance outstanding, August 31, 2006	3,648,833	$ 18.95
Balance outstanding, November 30, 2004	3,566,604	$ 17.86
Options granted	1,028,000	$ 17.09
Options cancelled	(32,147)	$ 19.56
Options exercised	(316,503)	$ 10.61
Balance outstanding, August 31, 2005	4,245,954	$ 18.20

The Company currently has authorized under the plan a total of 11,661,498 Class B shares, of which 5,624,323 are available to be granted at August 31, 2006. Options granted under the plan are non-assignable and will expire seven years from their date of grant. The vesting period is generally four years, but may be adjusted by the Board of Directors.

(e) Restricted Share Unit ('RSU') Plan

During the quarter, the Company established a RSU plan, which enables certain senior employees of AGF to participate in the growth and development of AGF by providing such employees with the opportunity, through RSUs, to acquire a proprietary interest in AGF. Under the terms of the plan, RSUs are issued to the participant and the units issued vest three years from the grant date.

On the vesting date, AGF, at its option, shall redeem all of the participants' RSUs in cash equal to the value of one Class B Non-Voting share for each RSU.

At August 31, 2006, 55,817 RSUs were outstanding to employees of the Company. These RSUs vest at the end of three years from the grant date. The Company records compensation expense equally over the vesting period, taking into account fluctuations in the market price of AGF Class B Non-Voting Shares and forfeitures. Compensation expense for the three and nine months ended August 31, 2006 related to these RSUs was $0.1 million.

(f) Earnings Per Share

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

	Three months ended August 31,		Nine months ended August 31,	
	2006	2005	2006	2005
Numerator				
Net income from continuing operations for the period	$ 35,469	$ 20,758	$ 81,276	$ 60,664
Gain on repayment of debt, net of income taxes			13,309	
Net earnings and loss on sale from discontinued operations, net of income taxes	(837)	(464)	(2,887)	3,166
Net income for the period	$ 34,632	$ 20,294	$ 91,698	$ 63,830
Denominator				
Weighted average number of shares – basic	89,055,124	89,615,145	89,083,057	90,496,185
Dilutive effect of employee stock options	402,797	300,474	727,307	321,166
Weighted average number of shares – diluted	89,457,921	89,915,619	89,810,364	90,817,351
Earnings per Share				
Basic from continuing operations	$ 0.40	$ 0.23	$ 0.91	$ 0.67
Diluted from continuing operations	$ 0.40	$ 0.23	$ 0.90	$ 0.67
Basic	$ 0.39	$ 0.23	$ 1.03	$ 0.71
Diluted	$ 0.39	$ 0.23	$ 1.02	$ 0.70

Note 11: Supplemental Disclosure of Cash Flow Information

Interest payments for the three months ended August 31, 2006 were $21.7 million (2005 – $8.8 million). Interest payments for the nine months ended August 31, 2006 were $54.3 million (2005 – $24.4 million).

Income tax payments for the three months ended August 31, 2006 were $9.2 million (2005 – $3.1 million). Income tax payments for the nine months ended August 31, 2006 were $36.6 million (2005 – $17.8 million).

Note 12: Future Income Taxes

The 2006 federal budget announced on May 2, 2006 proposed to reduce the federal corporate income tax rate to 19% from 21% by January 1, 2010 and to eliminate the federal corporate surtax rate of 1.12% effective January 1, 2008. On June 6, 2006, these tax rate changes were considered to be substantively enacted. Consequently, during the quarter, the Company recognized a $15.9 million reduction in future income tax liabilities.

Note 13: Segment Information

AGF has three reportable segments: Investment Management Operations, Trust Company Operations and Other. The Investment Management Operations segment provides investment management and advisory services and is responsible for the management and distribution of the AGF investment products. AGF Trust Company offers a wide range of trust services including GICs, mortgages, investment loans and RSP loans. In prior periods the Company had reported a Fund Administration Operations segment, which consisted of Unisen and Investmaster . As a result of the sale of Unisen (see note 3) Unisen's operations have been reported as discontinued operations. The results of Investmaster and S&WHL have been included in Other as these entities do not meet the criteria for separate disclosure. 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 2005 annual financial statements.

Three months ended August 31, 2006	Investment Management Operations	Trust Company Operations	Other	Inter-Segment Elimination	Total
External revenue	$ 131,284	$ 37,091	$ 4,223	$ –	$ 172,598
Intersegment revenue	398	176	–	(574)	–
Segment revenue	131,682	37,267	4,223	(574)	172,598
Operating expenses	82,524	31,171	4,054	(574)	117,175
Amortization	32,681	280	784	–	33,745
Segment income (loss) before taxes	$ 16,477	$ 5,816	$ (615)	$ –	$ 21,678
Included in External Revenue					
Interest revenue	$ 269	$ 35,714	$ –	$ –	$ 35,983

Three months ended August 31, 2005	Investment Management Operations	Trust Company Operations	Other	Inter-Segment Elimination	Total
External revenue	$ 131,203	$ 17,818	$ 4,018	$ –	$ 153,039
Intersegment revenue	460	247	–	(707)	–
Segment revenue	131,663	18,065	4,018	(707)	153,039
Operating expenses	71,068	13,575	5,189	(707)	89,125
Amortization	33,257	251	785	–	34,293
Segment income (loss) before taxes	$ 27,338	$ 4,239	$ (1,956)	$ –	$ 29,621
Included in External Revenue					
Interest revenue	$ 284	$ 21,090	$ –	$ –	$ 21,374

Nine months ended August 31, 2006	Investment Management Operations	Trust Company Operations	Other	Inter-Segment Elimination	Total
External revenue	$ 395,308	$ 105,332	$ 15,357	$ –	$ 515,997
Intersegment revenue	843	770	–	(1,613)	–
Segment revenue	396,151	106,102	15,357	(1,613)	515,997
Operating expenses	236,800	81,376	10,983	(1,613)	327,546
Amortization	98,140	840	2,354	–	101,334
Segment income before taxes	$ 61,211	$ 23,886	$ 2,020	$ –	$ 87,117
Included in External Revenue					
Interest revenue	$ 692	$ 92,300	$ –	$ –	$ 92,992
Total assets	$ 1,038,916	$ 2,339,594	$ 114,500	$ –	$ 3,493,010

Nine months ended August 31, 2005	Investment Management Operations	Trust Company Operations	Other	Inter-Segment Elimination	Total
External revenue	$ 386,987	$ 45,909	$ 12,864	$ –	$ 445,760
Intersegment revenue	(96)	803	–	(707)	–
Segment revenue	386,891	46,712	12,864	(707)	445,760
Operating expenses	200,846	37,056	18,798	(707)	255,993
Amortization	100,955	738	2,376	–	104,069
Segment income (loss) before taxes	$ 85,090	$ 8,918	$ (8,310)	$ –	$ 85,698
Included in External Revenue					
Interest revenue	$ 995	$ 44,241	$ –	$ –	$ 45,236
Total assets	$ 1,053,897	$ 1,275,565	$ 115,971	$ –	$ 2,445,433

AGF Management Limited
P.O. Box 50
Toronto-Dominion Centre
Toronto, ON M5K 1E9
Web Site: AGF.com
E-mail: tiger@AGF.com
Tel: 416 367-1900

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