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

For the three months ended February 29, 2016 and February 28, 2015

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AGF MANAGEMENT LIMITED

First Quarter Report to Shareholders for the three months ended February 29, 2016

AGF MANAGEMENT LIMITED REPORTS FIRST QUARTER FINANCIAL RESULTS

- *46% of ranked AUM performed above median for the one-year period ended February 29, 2016 compared to 34% in the same period in 2015*

Toronto | March 23, 2016

AGF Management Limited (AGF or the Company) today announced financial results for the first quarter ended February 29, 2016. The volatile global markets over the past 12 months have had an impact on AUM levels. Total assets under management (AUM) was $31.7 billion as at February 29, 2016, compared to $36.7 billion as at February 28, 2015. Total retail fund AUM was $16.9 billion as at February 29, 2016, compared to $20.0 billion as at February 28, 2015. The trend of lower retail redemption levels continued into the first quarter of 2016 as net redemptions were 36.5% lower than during the first quarter of 2015, decreasing to $0.3 billion from $0.5 billion. During the same period, mutual fund redemptions across the industry increased 18.6% when compared to the same time frame in 2015. Institutional and sub-advisory AUM was $10.4 billion as at February 29, 2016, compared to $11.8 billion as at February 28, 2015. Private client AUM was $4.2 billion, compared to $4.6 billion for the same period in 2015. AUM related to the alternative asset management platform remained stable at $0.3 billion.

On March 2, 2016, InstarAGF Inc. (InstarAGF) announced the successful first close of the InstarAGF Essential Infrastructure Fund (EIF) with $372.0 million in firm equity commitments and a targeted final close of $750.0 million. InstarAGF's receipt of new commitments resulted in AGF receiving net cash of $73.6 million, the majority of which represents a return of capital to bring the Company's invested capital in line with its proportionate share of total commitments offset by $9.6 million of additional capital call. InstarAGF expects to achieve the final close of the fund by the end of 2016.

"I am pleased with the first close of the InstarAGF Essential Infrastructure Fund. It reinforces our commitment to reinvesting in the business and represents a significant milestone for our alternatives platform," said Blake C. Goldring, Chairman and Chief Executive Officer, AGF Management Limited. "InstarAGF diversifies AGF's investment capabilities and solutions for institutional, private, and retail clients globally, and enhances our ability to deliver innovative strategies that offer investors downside risk protection and long-term capital growth."

On March 9, 2016, AGF announced plans to streamline its retail product line and provide greater focus on key strategies by merging a number of funds. In addition to those proposed mergers, AGF also lowered management fees on selected funds across the equity, fixed income, balanced and managed solutions lineup effective April 1, 2016.

"After a thorough review of our investment processes and risk parameters across all our mandates, we have narrowed our product lineup to help improve efficiencies while offering best-in-class and competitively priced products that meet the evolving needs of our clients," said Kevin McCreadie, President and Chief Investment Officer, AGF Investments Inc.

During the first quarter of 2016, income from continuing operations was $103.3 million, compared to $111.7 million for the three months ended February 28, 2015, largely due to lower average retail AUM levels. For the three months ended February 29, 2016, net income from continuing operations was $10.1 million compared to $13.6 million for the same quarter of 2015. Earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations was $27.3 million, compared to $33.9 million in the first quarter of 2015. Diluted earnings per share (EPS) from continuing operations was $0.13 compared to $0.16 for the three months ended February 28, 2015.

Dividends paid, including dividends reinvested, on Class A Voting common shares and Class B Non-Voting shares were $6.4 million in the first quarter of 2016. Under its normal course issuer bid, AGF repurchased a total of 1,000,000 Class B Non-Voting shares for $5.1 million, at an average price of $5.10 per share. For the three months ended February 29, 2016, AGF declared an eight cent per share dividend on Class A Voting common shares and Class B Non-Voting shares, payable April 18, 2016 to shareholders on record as at April 8, 2016.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis (MD&A) includes forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as 'expects,' 'anticipates,' 'intends,' 'plans,' 'believes' or negative versions thereof and similar expressions, or future or conditional verbs such as 'may,' 'will,' 'should,' 'would' and 'could.' In addition, any statement that may be made concerning future financial performance (including income, earnings or growth rates), ongoing business strategies or prospects, and possible future action on our part, is also a forward-looking statement. Forward-looking statements are based on certain factors and assumptions, including expected growth, results of operations, business prospects, business performance and opportunities. While we consider these factors and assumptions to be reasonable based on information currently available, they may prove to be incorrect. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about our operations, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by us due to, but not limited to, important risk factors such as level of assets under our management, volume of sales and redemptions of our investment products, performance of our investment funds and of our investment managers and advisors, pipeline, competitive fee levels for investment management products and administration, and competitive dealer compensation levels and cost efficiency in our investment management operations, as well as interest and foreign-exchange rates, taxation, changes in government regulations, unexpected judicial or regulatory proceedings, and our ability to complete strategic transactions and integrate acquisitions. We caution that the foregoing list is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than specifically required by applicable laws, we are under no obligation (and expressly disclaim any such obligation) to update or alter the forward-looking statements, whether as a result of new information, future events or otherwise. For a more complete discussion of the risk factors that may impact actual results, please refer to the 'Risk Factors and Management of Risk' section of the 2015 Annual MD&A.

Summary of Quarterly Results

(from continuing operations)

(in millions of Canadian dollars, except per share amounts) **For the three-month period ended**	**Feb. 29, 2016**	**Nov. 30, 2015**	**Aug. 31, 2015**	**May 31, 2015**
Income[1]	$ 103.3	$ 105.0	$ 115.8	$ 117.1
Expenses[2,3]	76.0	79.5	84.0	81.1
EBITDA[4]	27.3	25.5	31.8	36.0
Pre-tax income	12.9	10.3	15.9	19.6
Net income attributable to equity owners of the Company	10.2	8.1	11.9	14.7
EBITDA per share[4]				
Basic	$ 0.34	$ 0.31	$ 0.38	$ 0.43
Diluted	0.34	0.30	0.38	0.42
Earnings per share attributable to equity owners of the Company				
Basic	$ 0.13	$ 0.11	$ 0.14	$ 0.17
Diluted	0.13	0.11	0.14	0.17
Free cash flow[3,4]	11.1	18.6	17.0	16.8
Dividends per share	0.08	0.08	0.08	0.08
Total long-term debt	268.9	268.8	268.7	268.6
Weighted average basic shares	79,449,122	82,532,707	82,826,845	84,489,294
Weighted average fully diluted shares	79,485,581	83,663,389	83,814,065	85,426,944

(in millions of Canadian dollars, except per share amounts) **For the three-month period ended**	**Feb. 28, 2015**	**Nov. 30, 2014**	**Aug. 31, 2014**	**May 31, 2014**
Income	$ 111.7	$ 111.7	$ 116.9	$ 119.1
Expenses[2]	77.8	77.3	78.4	81.0
EBITDA[4]	33.9	34.4	38.5	38.1
Pre-tax income	18.1	16.7	19.6	19.5
Net income attributable to equity owners of the Company	13.6	12.6	14.8	14.5
EBITDA per share[4]				
Basic	$ 0.40	$ 0.40	$ 0.45	$ 0.44
Diluted	0.40	0.40	0.45	0.44
Earnings per share attributable to equity owners of the Company				
Basic	$ 0.16	$ 0.15	$ 0.17	$ 0.17
Diluted	0.16	0.14	0.17	0.17
Free cash flow[3,4]	15.4	22.0	22.2	18.0
Dividends per share	0.27	0.27	0.27	0.27
Total long-term debt	268.5	308.2	308.2	308.1
Weighted average basic shares	84,644,212	85,812,669	85,950,736	86,009,993
Weighted average fully diluted shares	85,447,450	87,000,054	86,459,914	86,563,621

[1] Includes a $5.7 million special distribution from a long-term investment for the three months ended August 31, 2015.

[2] Includes selling, general and administrative (SG&A), trailing commissions and investment advisory fees.

[3] Includes one-time restructuring costs of $2.8 million and $4.4 million for the three months ended November 30, 2015 and August 31, 2015, respectively.

[4] See 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures' section.

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

This Management's Discussion and Analysis (MD&A) is as of March 22, 2016, and presents an analysis of the financial condition of AGF and its subsidiaries for the three-month period ended February 29, 2016, compared to the three-month period ended February 28, 2015. The MD&A should be read in conjunction with our unaudited Condensed Consolidated Interim Financial Statements for the three months ended February 29, 2016 and our 2015 Annual Report. The financial statements for the three months ended February 29, 2016, including required comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including International Accounting Standard 34 (IAS 34), Interim Financial Reporting, unless otherwise noted.

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

All dollar amounts are in Canadian dollars unless otherwise indicated. Throughout this discussion, percentage changes are calculated based on numbers rounded to the decimals that appear in this MD&A. Results, except per share information, are presented in millions of dollars. Certain totals, subtotals and percentages may not reconcile due to rounding.

There have been no material changes to the information discussed in the following sections of the 2015 Annual MD&A: 'Risk Factors and Management of Risk' 'Contractual Obligations' and 'Intercompany and Related Party Transactions.'

Our Business and Strategy

AGF Management Limited (AGF or the Company), with $31.7 billion in assets under management (AUM) as at February 29, 2016, is one of the largest independent Canadian-based investment management firms, with operations and investments in Canada, the United States, the United Kingdom, Ireland and Asia. The origin of our Company dates back to 1957 with the introduction of the American Growth Fund, the first mutual fund available to Canadians seeking to invest in the United States.

We believe that superior investment performance and product innovation are key to our success. Our target is to consistently have 50% of our ranked AUM above median over any one year and 60% above median over three years. For the one-year period ended February 29, 2016, 46% of ranked AUM performed above median, compared with 34% in 2015. For the three-year period ended February 29, 2016, 47% of ranked AUM performed above median, compared with 51% in 2015.

We also believe in diversification, both in terms of investment styles and product solutions offered to our clients in each of the segments in which we operate. AGF offers individuals and institutions a broad array of investment strategies and solutions across four investment management platforms:

- Fundamental Active Management
- Quantitative Solutions
- Private Client
- Alternative Assets

Fundamental Active Management

AGF's fundamental actively managed platform includes a broad range of equity and fixed income strategies, managing total AUM of $22.8 billion. Within this platform, we have a number of centres of excellence, including our Global, North American, Fixed Income and Asset Allocation teams, located in Toronto, Dublin, and Singapore. This platform delivers products to retail, institutional investors and strategic partners.

Over the past 18 months, we have refined our investment processes by completing a comprehensive review of each investment team, adding talent and support in key areas, eliminating products and resources where we had redundancy and implementing risk management processes and systems. These changes are producing results, as our investment performance has continued to improve.

We have strong capability and performance within the global space and we intend to leverage this strength as part of our growth strategy. Our marketing efforts are focused on promoting this team and their capabilities to investors.

Our Asset Allocation team has been instrumental in delivering superior performance within our balanced products, in particular, AGF Elements, which continues to produce strong net sales for the Company.

We continually review our product offering with an aim to provide our advisors and clients a product platform that offers innovative solutions around specific needs, ultimately resulting in organic AUM growth for the Company and superior, consistent investment returns to our clients. In March 2016, we announced further proposed fund mergers with the goal of streamlining our product lineup and providing greater focus on our key strategies and capabilities. We also announced the reduction of management fees on select funds across the equity, fixed income, balanced, and managed solutions lineup effective April 1, 2016.

Quantitative Solutions

Our quantitative solutions platform includes Highstreet Asset Management Inc. (Highstreet), located in London, Ontario, and FFCM, LLC (FFCM), located in Boston, with a total of 22 investment professionals managing AUM of approximately $4.4 billion.

Highstreet's investment foundation is empirically based research and the combination of quantitative and fundamental investing. All of its research and analysis is done internally, backed by an investment team with a diverse skill set ranging from scientists to academics to traditional fundamental analysts.

In November 2015, we acquired a majority interest in FFCM, a U.S.-based advisor that manages factor-based exchange traded funds (ETF). FFCM has the capability to manage the Investment Company Act of 1940 registered products, separately managed accounts, and hedge funds in direct or sub-advisory relationship models and have obtained ETF Securities and Exchange Commission (SEC) exemptive relief. FFCM provides us with a complete trading infrastructure to support ETFs and mutual fund products. Beyond trading capabilities, FFCM has developed and launched five ETFs into the market with performance success. With our expertise and capabilities within Highstreet and FFCM, we believe that there will be opportunities to launch risk-oriented solutions in Canada and the United States to address increasing investor demand in the low volatility and factor-based investing styles.

Private Client

The private client industry in Canada includes bank-owned firms, as well as large independent firms and boutiques, who continue to retain a significant portion of market share. Our private client platform, which includes Cypress Capital Management Limited (Cypress), located in Vancouver, Doherty & Associates Ltd. (Doherty), with offices in Ottawa and Montreal, and Highstreet, provides solutions for high-net-worth individuals, endowments, and foundations in key markets across Canada. These businesses manage total private client AUM of approximately $4.2 billion, representing growth over the past five years of 24.0%.

Alternative Assets

Global economic uncertainty in recent years is driving increasing demand from institutional and individual investors for more stable and sustainable long-term investment returns, including allocating to alternative asset classes such as real assets. These assets, which are physical or tangible in nature, have historically demonstrated a low correlation to the public markets.

In 2014, as part of our capital reallocation strategy, we formed InstarAGF Asset Management Inc. (InstarAGF), a joint venture with Instar Group Inc. (Instar) to develop an alternative asset management platform. AGF holds a 50.0% economic interest in InstarAGF and has also committed equity of $150.0 million to this platform. As alternative assets continue to grow in prominence and represent a greater proportion of institutional portfolios, AGF is well positioned to deliver the long-duration, risk-adjusted solutions institutional, retail and high-net-worth investors are seeking to generate predictable cash flow and meet long-dated liabilities.

InstarAGF is an independent alternative asset management firm with an emphasis on real assets, including infrastructure investments, in the North American middle market. InstarAGF's long-term objective is to develop and manage a diversified alternative investment products for institutional and individual investors, which, in addition to infrastructure, could include timber or agriculture and other private equity investments, among others. InstarAGF's team of professionals has more than 100 years of combined investment and asset management expertise in the private capital industry, including infrastructure, private equity and real estate investments.

AGF's $150.0 million of committed equity includes a $100.0 million commitment in the flagship InstarAGF Essential Infrastructure Fund (EIF), which invests in power, utilities, civil and social infrastructure assets in Canada and the United States, and a $50.0 million commitment to a Canadian midstream oil and gas fund managed by Stream Asset Financial Management LP (SAFMLP).

Through its ownership interest in InstarAGF and its 100.0% economic interest in SAFMLP, AGF will earn recurring management fees on these entities' assets under management along with a share of net profit as the alternatives platform achieves scale. Through its investment as a limited partner in the various funds managed by InstarAGF and SAFMLP, AGF expects to earn attractive risk-adjusted returns comprising income and capital appreciation.

In January 2015, InstarAGF and its consortium partners in Nieuport Aviation Infrastructure Partners GP acquired the passenger terminal at Billy Bishop Toronto City Airport. AGF committed and invested $103.4 million in this asset.

Subsequent to the quarter end, on March 2, 2016, InstarAGF and AGF achieved the first close of EIF with a number of institutional and high-net-worth investors from Canada, Europe, the United Kingdom and the United States. These cornerstone investors, including AGF, committed aggregate equity of $372.0 million to the Fund and have the ability to upsize their capital commitment to $422.0 million prior to EIF's final close, which is currently expected to occur by the end of 2016 with a targeted fund size of $750.0 million. Following first close, AGF received a return of capital of $73.6 million, net of a capital call of $9.6 million, which aligned AGF's invested capital to its proportionate share of total commitments to the fund.

Other Businesses

In addition to our investment management platforms outlined above, we hold a 32.3% interest in Smith & Williamson Holdings Limited (S&WHL), a leading independent private client investment management, financial advisory and accounting group based in the U.K.. S&WHL is one of the top 10 largest firms of accountants in the U.K. and its investment management business has over $29.6 billion (£15.7 billion) of funds under management and advice as at February 29, 2016.

On February 16, 2016, AGF internalized the Company's transfer agency function. The transfer agency business provides services to the AGF mutual funds.

Our Distribution Channels

Retail

Our sales teams manage advisor and strategic account relationships for our retail business, which provides investment management products to the retail and strategic sub-advisory channel. We have regional sales offices across Canada. AGF's wholesaler teams cover over 35,000 external advisors and 200 investment dealers in support of our retail products. We have a number of key partnerships that provide us with a large and robust distribution channel in which to deliver our products to investors. During the three months ended February 29, 2016, retail fund net redemptions improved 36.5% to $0.3 billion compared to net redemptions of $0.5 billion for the same period last year.

Institutional

We have a global network of salespeople covering North America, Europe and Asia. Our Boston office is dedicated to business development in the institutional space in the United States, while our representative office in London, U.K. is dedicated to institutional sales efforts in the U.K.. AGF also participates in an investment consultant relations program and has earned buy ratings from a number of major firms. Investment consultants act as gatekeepers in the industry, and advise their clients on issues such as asset allocation and manager selection. This constituency is important as a buy rating from a major consultant can lead to an increased number of request for proposal (RFP) searches, which in turn enhances the chance of winning new business. Our key competencies in global equities are aligned with market trends, namely the need for reducing home country bias and investing globally. We also distribute products managed by our alternative platform within InstarAGF to North American and international financial institutions and asset managers through this channel.

Summary of Key Financial and AUM Results for the First Quarter of 2016:

- Total AUM was $31.7 billion at February 29, 2016, as compared to $36.7 billion at February 28, 2015. The volatile global markets over the past 12 months have had an impact on AUM levels as strong market gains in the first quarter of 2015 have been completely reversed in the last 12 months with the first quarter of 2016 experiencing negative markets.
- Institutional AUM was $10.4 billion, compared to $11.8 billion at February 28, 2015.
- Private Client AUM was $4.2 billion, compared to $4.6 billion for the same period in 2015.
- Income from continuing operations was $103.3 million, compared to $111.7 million in the same period of 2015, reflecting lower average AUM levels and overall reduction in the fee revenue rate.
- EBITDA from continuing operations was $27.3 million, compared to $33.9 million in 2015.
- Diluted EPS from continuing operations for the three months ended February 29, 2016 was $0.13 per share, compared to diluted EPS of $0.16 per share in 2015.
- We delivered value directly to our shareholders through dividend payments and share buybacks. During the first quarter of 2016, we paid dividends of $0.08 per share (2015 – $0.27 per share). Dividends paid, including dividends reinvested, on Class A Voting common shares and Class B Non-Voting shares were $6.4 million in the first quarter of 2016, compared to $23.0 million in the same period of 2015. Under the normal course issuer bid,1,000,000 Class B Non-Voting shares were repurchased for a total consideration of $5.1 million, at an average price of $5.10 per share.

Assets Under Management

The following table illustrates the composition of the changes in total AUM during the three months ended February 29, 2016 and February 28, 2015:

(in millions of Canadian dollars) **Three months ended**	**February 29, 2016**	**February 28, 2015**	**% change**
Retail fund AUM (including retail pooled funds), beginning of period	$ 18,030	$ 19,109	(5.6%)
Gross sales[1]	534	602	(11.3%)
Redemptions[1]	(846)	(1,093)	(22.6%)
Net redemptions	(312)	(491)	(36.5%)
Market appreciation (depreciation) of fund portfolios	(865)	1,337	n/m
Retail fund AUM (including retail pooled funds), end of period	$ 16,853	$ 19,955	(15.5%)
Average daily retail fund AUM for the period	$ 17,327	$ 19,137	(9.5%)
Institutional and sub-advisory accounts AUM, beginning of period	$ 10,867	$ 11,342	(4.2%)
Net change in institutional and sub-advisory accounts, including market performance	(462)	453	n/m
Institutional and sub-advisory accounts AUM, end of period	$ 10,405	$ 11,795	(11.8%)
Private client AUM	$ 4,192	$ 4,617	(9.2%)
AUM, end of period	$ 31,450	$ 36,367	(13.5%)
Alternative asset management platform AUM[2]	$ 268	$ 315	(14.9%)
Total AUM, including alternative asset management platform, end of period	$ 31,718	$ 36,682	(13.5%)

[1] Gross sales and redemptions include rebalancing of AGF Concert Series of $25.6 million (2015 – $76.9 million).

[2] Represents fee-earning committed and/or invested capital from AGF and external investors held through joint ventures. AGF's portion of this commitment is $150.0 million, of which $146.9 million has been funded as at February 29, 2016. InstarAGF holds a 37.0% interest in the manager of the fund.

Institutional Pipeline

The following represents forward-looking information. We define the institutional pipeline as client commitments to fund or redeem a portion or all of their account. As at the date of this MD&A, AGF had a net redemptions pipeline of $40.0 million. The pipeline does not include $270.0 million of commitments expected to be funded through InstarAGF. Commitments are not necessarily contractual obligations. Actual amounts funded or redeemed may vary.

Consolidated Operating Results

The table below summarizes our consolidated operating results for the three months ended February 29, 2016 and February 28, 2015:

(in millions of Canadian dollars, except per share data) **Three months ended**	**February 29, 2016**	**February 28, 2015**	**% change**
Income			
Management and advisory fees	$ 95.0	$ 102.5	(7.3%)
Deferred sales charges	2.3	2.6	(11.5%)
Share of profit of associate and joint ventures	4.1	3.9	5.1%
Fair value adjustments and other income	1.9	2.7	(29.6%)
	103.3	111.7	(7.5%)
Expenses			
Selling, general and administrative	45.3	44.8	1.1%
Trailing commissions	30.0	31.4	(4.5%)
Investment advisory fees	0.7	1.6	(56.3%)
	76.0	77.8	(2.3%)
EBITDA[1]	27.3	33.9	(19.5%)
Amortization, derecognition and depreciation	12.2	13.0	(6.2%)
Interest expense	2.2	2.8	(21.4%)
Income before taxes	12.9	18.1	(28.7%)
Income taxes	2.8	4.5	(37.8%)
Net income	10.1	13.6	(25.7%)
Net income attributable to:			
Equity ow ners of the Company	$ 10.2	$ 13.6	(25.0%)
Non-controlling interest	(0.1)	–	n/m
	10.1	13.6	(25.7%)
Earnings per share for the period attributable to equity holders of the Company			
Basic earnings per share	$ 0.13	$ 0.16	(18.8%)
Diluted earnings per share	$ 0.13	$ 0.16	(18.8%)

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

Income

For the three months ended February 29, 2016, income decreased by 7.5% over the previous year, with changes in the categories as follows:

Management and Advisory Fees

Management and advisory fees are directly related to our AUM levels. The volatile global markets over the past 12 months have had an impact on AUM levels as strong market gains in the first quarter of 2015 have been completely reversed in the last 12 months with the first quarter of 2016 experiencing negative markets. The impact to our retail business was a decline of $1.7 billion in the 12 month period ended February 29, 2016. For the three months ended February 29, 2016, a 9.5% decline in average daily retail fund AUM and a 11.8% decline in institutional and sub-advisory accounts AUM contributed to a decrease of 7.3% in management and advisory fees revenue compared to 2015.

Deferred Sales Charges (DSC)

We receive deferred sales charges upon redemption of securities sold on the contingent DSC or low-load commission basis for which we finance the selling commissions paid to the dealer. The DSC ranges from 1.5% to 5.5%, depending on the commission option of the original subscription price of the funds purchased if the funds are redeemed within the first two years and declines to zero after three or seven years. DSC revenue fluctuates based on the level of redemptions, the age of the assets being redeemed and the proportion of redemptions composed of back-end assets. DSC revenue decreased by 11.5% for the three months ended February 29, 2016 as compared to 2015, reflecting a 22.6% decline in redemptions offset by the redemption of an increased proportion of new higher-yielding DSC assets.

Share of Profit of Associate and Joint Ventures

Share of profit of associate and joint ventures increased 5.1% to $4.1 million for the three months ended February 29, 2016, compared to $3.9 million during the same period in 2015. Earnings in S&WHL's business increased 5.4% during the three months ended February 29, 2016. Earnings in SAFMLP remained stable during the three months ended February 29, 2016. For additional information see Note 5 of the condensed consolidated interim financial statements. A breakdown is as follows:

($ millions) Three months ended	February 29, 2016	February 28, 2015
Share of profit of S&WHL	$ 3.9	$ 3.7
Share of profit of joint ventures[1]	0.2	0.2
	$ 4.1	$ 3.9

[1] Excludes the Company's portion of the estimated carried interest to be distributed to AGF on crystallization.

Fair Value Adjustments and Other Income

The following table illustrates the fair value adjustments and other income for the three months ended February 29, 2016 and February 28, 2015:

($ millions) Three months ended	February 29, 2016	February 28, 2015
Fair value adjustment related to investment in AGF mutual funds	$ (1.4)	$ 0.9
Fair value adjustment and distributions related to long-term investments	2.8	1.3
Interest income	0.3	0.7
Other	0.2	(0.2)
	$ 1.9	$ 2.7

The following table presents a breakdown of the fair value adjustment and distributions related to long-term investments for the three months ended February 29, 2016 and February 28, 2015:

($ millions)	February 29, 2016			February 28, 2015		
Three months ended	Stream	EIF	Total	Stream	EIF	Total
Distribution income	$ 0.7	$ 0.6	$ 1.3	$ 1.1	$ –	$ 1.1
Fair value adjustment[1]	(0.6)	2.1	1.5	(0.5)	0.7	0.2
Fair value adjustment and distributions related to long-term investments	$ 0.1	$ 2.7	$ 2.8	$ 0.6	$ 0.7	$ 1.3

[1] Fair value adjustment in Stream is based on the net assets of the fund less the Company's portion of the carried interest that would be payable by the fund upon crystallization.

Expenses

For the three months ended February 29, 2016, expenses decreased 2.3% from the previous year. Changes in specific categories are described in the discussion that follows:

Selling, General and Administrative Expenses (SG&A)

For the three months ended February 29, 2016, SG&A expenses increased by $0.5 million, or 1.1%, compared to the same period in 2015. A breakdown of the increase is as follows:

(in millions of Canadian dollars)	Three months ended February 29, 2016	
Decrease in stock-based compensation expenses	$	(0.9)
Increase in information technology and facilities costs		1.5
Increase in professional fees		0.5
Decrease in fund absorption expenses and other fund costs		(0.8)
Decrease in other expenses		(0.3)
		–
SG&A related to FFCM and AGF CustomerFirst Inc.		0.5
	$	0.5

The following explains expense changes in the three months ended February 29, 2016, compared to the same period in the prior year:

- Stock-based compensation decreased $0.9 million for the three months ended February 29, 2016, compared to the same period in 2015, as a result of lower Restricted Share Units (RSU) expense driven by a lower share price.
- Information technology and facilities costs increased $1.5 million for the three months ended February 29, 2016, due to unfavourable foreign exchange rates and lower expense for the same period in 2015 due to timing of information technology expenditures.
- Professional fees increased $0.5 million for the three months ended February 29, 2016, due to an increase in legal fees related to ongoing tax matters and acquisitions.
- Absorption and other fund costs expense decreased $0.8 million for the three months ended February 29, 2016, as a result of lower absorption rates and other fund related costs that are primarily driven by AUM and transaction levels.
- SG&A related to FFCM and AGF CustomerFirst Inc. reflect costs related to the acquisition and internalization of these businesses in the first quarter of 2016.

Trailing Commissions

Trailing commissions paid to distributors depend on total AUM, the proportion of mutual fund AUM sold on a front-end versus back-end commission basis and the proportion of equity fund AUM versus fixed-income fund AUM. Annualized trailing commissions as a percentage of average daily retail fund AUM increased to 0.69% for the three months ended February 29, 2016, compared to 0.66% for the same period in 2015, reflecting an increase in rates associated with mature assets.

EBITDA, EBITDA Margin and EBITDA per Share

EBITDA from continuing operations were $27.3 million for the three months ended February 29, 2016, compared to $33.9 million for the same period of 2015. EBITDA margin was 26.4% for the three months ended February 29, 2016, compared to 30.3% in the corresponding period in 2015. Diluted EBITDA per share from continuing operations for the three months ended February 29, 2016 was $0.34, compared to $0.40 for the three months ended February 28, 2015.

Amortization and Interest Expense

The category represents amortization of deferred selling commissions, customer contracts, other intangible assets, property, equipment, and computer software and interest expense. Deferred selling commissions amortization represents the most significant category of amortization. We internally finance all selling commissions paid. These selling commissions are capitalized and amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule. Unamortized deferred selling commissions related to units redeemed prior to the end of the schedule are immediately expensed. Amortization expense related to deferred selling commissions was $9.3 million for the three months ended February 29, 2016, compared to $10.4 million for the same period in 2015. During the three months ended February 29, 2016, we paid $8.6 million in selling commissions, compared to $9.6 million in the same period of 2015, reflecting a trend toward front-end sales, which do not pay a DSC commission. As at February 29, 2016, the unamortized balance of deferred selling commissions financed was $98.6 million (November 30, 2015 – $99.3 million).

Customer contracts amortization and derecognition remained unchanged for the three months ended February 29, 2016. Customer contracts are immediately expensed upon redemption of the AUM.

Other intangibles amortization and derecognition decreased $0.1 million for the three months ended February 29, 2016.

Depreciation increased to $1.0 million for the three months ended February 29, 2016, compared to $0.7 million for the same period in 2015, reflecting the investment related to the internalization of the transfer agency operation.

Interest expense decreased as a result of lower average interest rates.

Income Tax Expense

Income tax expense for the three months ended February 29, 2016 was $2.8 million, as compared to $4.5 million in the corresponding period in 2015. The estimated effective tax rate for the three months ended February 29, 2016 was 21.8% (2015 – 25.0%).

The Company believes that it has adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases, however, requires significant judgement in interpreting tax rules and regulations. The Company's tax filings are subject to audits, which could materially change the amount of the current and deferred income tax assets and liabilities, and could, in certain circumstances, result in the assessment of interest and penalties.

The Company has several ongoing disputes with the Canada Revenue Agency (CRA), of which the final result of the audit and appeals process may vary and may be materially different compared to the estimates and assumptions used by management in determining the Company's consolidated income tax provision and in determining the amounts of its income tax assets and liabilities.

(a) CRA Audit – Transfer Pricing

During the period November 30, 2013 to February 29, 2016, the Company has received a number of notices of reassessment (NOR) from the CRA for its 2005 through 2009 fiscal years relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary. The reassessments would increase the Company's taxes payable from its original tax filings by $53.2 million (before the application of interest and penalties of $29.7 million). During the first quarter of 2016, the Company received a proposal letter from the CRA for its fiscal year 2010 in relation to the same matter, which would increase the Company's taxes payable from its original filing by $7.8 million (before the application of any interest and penalties of approximately $3.8 million).

The Company strongly disagrees with the CRA's position and filed various objections to the NOR for the taxation years 2005 to 2009. In connection with the filing of an objection to the NOR for the applicable periods 2005 through 2009, the Company has paid approximately $56.8 million of which $2.8 million was paid (including interest and penalties) during the three months ended February 29, 2016 in relation to the 2009 NOR.

In consultation with its external advisors, the Company believes that its transfer pricing methodology was reasonable and the Company is contesting the CRA's position and any related transfer pricing penalty. The Company believes it is likely that the CRA will reassess its taxes for subsequent years on a similar basis and that these may result in future cash payments on receipt of the reassessments. During the three months ended February 29, 2016, the Company has recorded a tax expense of $0.7 million (2015 – $0.4 million) in relation to this transfer pricing audit. The amount of tax provision recorded on the consolidated interim statement of financial position reflects management's best estimate on the ultimate resolution of this matter and includes any related estimated interest and penalties for the 2005 to 2016 fiscal years.

Further to the Company's objection to the NOR, the Company is also seeking Competent Authority relief from double taxation under the applicable tax treaty. The Company's provision, which reflects its best estimate of the ultimate resolution of this matter, includes an expected recovery of approximately $14.8 million for the tax years 2005 through 2010. Any relief from double taxation should be granted at the completion of the mutual agreement procedures (MAP) under the applicable tax treaty.

In 2013, the Company was accepted by the CRA into a Bilateral Advance Pricing Arrangement (BAPA) between Canada and the relevant tax authorities to establish the appropriate transfer pricing methodologies for the tax years 2011 through 2016. Under a BAPA, the taxpayer will receive certainty as to its transfer pricing arrangements for the years under consideration, will not be assessed transfer-pricing penalties, and can avoid double taxation on transactions covered by the BAPA according to the provisions of the income tax treaty between Canada and the foreign country.

(b) CRA Audit – Foreign Accrual Property Income

In May 2015, the Company received a proposal letter from the CRA relating to foreign accrual property income (FAPI) earned by its foreign subsidiaries for the 2007 to 2012 fiscal years. The 2007 fiscal year has since been statute-barred and in September 2015, as a result of further review, the CRA has withdrawn its proposal on this issue for the 2008 to 2012 fiscal years. Despite the withdrawal of the proposal letter, the audit for the 2008 to 2012 fiscal years continues. The Company continues to believe that its tax position is correct and has not recorded a provision for this issue.

(c) CRA Audit – Acquisition of Tax-Related Benefits

In July 2015, the Company received a NOR from the CRA denying $30.5 million of tax-related benefits acquired and utilized by the Company in the 2005 fiscal year. The NOR would increase the Company's taxes payable from its original tax filings by $10.9 million (before the application of interest and penalties of $9.7 million). The Company strongly disagrees with the CRA's position and has filed an objection to the NOR. As a result of receiving the NOR, the Company has paid $13.5 million (including interest and penalties) during the year ended November 30, 2015, which was recorded as income tax receivable on the consolidated interim statement of financial position. The ultimate outcome of this matter is not yet determinable. In consultation with its external advisors, the Company believes that its tax position is probable of being sustained and, as a result, has not recorded a provision in relation to this matter.

Net Income

The impact of the above income and expense items resulted in net income from continuing operations of $10.1 million for the three months ended February 29, 2016, as compared to net income from continuing operations of $13.6 million in the corresponding period in 2015.

Earnings per Share

Diluted earnings per share from continuing operations was $0.13 per share for the three months ended February 29, 2016, as compared to earnings of $0.16 per share in the corresponding period of 2015.

Liquidity and Capital Resources

As at February 29, 2016, the Company had total cash and cash equivalents of $14.0 million. Free cash flow, as defined on page 16, generated from continuing operating activities was $11.1 million for the three months ended February 29, 2016, compared to $15.4 million in the prior period. During the three months ended February 29, 2016, we used $34.7 million (2015 – $224.6 million) in cash to fund the following:

(in millions of Canadian dollars) **Three months ended**	**February 29, 2016**	**February 28, 2015**
Paid to CRA in relation to ongoing tax matters	$ (2.8)	$ (14.5)
Net cash used in operating activities[1]	(13.5)	(10.0)
Repurchase of shares under NCIB	(5.1)	(21.7)
Purchase of shares as treasury stock for EBT	(0.3)	–
Dividends paid	(6.3)	(22.7)
Investment in the alternative asset management platform	(3.4)	(110.3)
Repayment of long-term debt	–	(40.0)
Purchase of property, equipment and computer software related to internalization of the transfer agency function	(3.2)	–
Other	(0.1)	(5.4)
Decrease in cash and cash equivalents	$ (34.7)	$ (224.6)

[1] Includes payments relating to 2015 annual bonuses which occur in December of each year and excludes CRA payments in relation to ongoing tax matters.

Subsequent to the end of the quarter, as part of the first close of EIF, the Company received net cash of $73.6 million, the majority of which represents a return of capital to bring the Company's invested capital in line with its proportionate share of total commitments offset by $9.6 million of additional capital call.

Total long-term debt outstanding at February 29, 2016 was $268.9 million (November 30, 2015 – $268.8 million). On November 20, 2015, the Company, through its subsidiary AGF Investments Inc., amended and restated its loan agreement. The amended unsecured revolving credit facility has a maximum aggregate principal amount of $320.0 million and includes a $10.0 million swingline facility commitment. As at February 29, 2016, $44.9 million was available to be drawn. The loan facility will be available to meet future operational and investment needs. We anticipate that cash balances and cash flow from operations, together with the available loan facility, will be sufficient in the foreseeable future to implement our business plan, fund our alternative asset management platform commitments, finance selling commissions, satisfy regulatory and tax requirements, service debt repayment obligations, pay quarterly dividends, and fund any future share buybacks.

On March 22, 2016, the Board of Directors of AGF declared a quarterly dividend on both the Class A Voting common shares and Class B Non-Voting shares of the Company of $0.08 per share in respect of the three months ended February 29, 2016.

Capital Management Activities from Continuing Operations

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

AGF capital consists of shareholders' equity and long-term debt. On an annual basis, AGF prepares a three-year plan detailing projected operating budgets and capital requirements. AGF is required to submit this plan to AGF's Finance Committee for approval prior to seeking Board approval. AGF's Finance Committee consists of the Chairman and CEO, the Vice-Chairman, Executive Vice-President and CFO, the Executive Vice-President and Chief Operating Officer, and the President and CIO. Once approved by the Finance Committee, the three-year plans are reviewed and approved by AGF's Board of Directors. These plans become the basis for the payment of dividends to shareholders, the repurchase of Class B Non-Voting shares and, combined with the reasonable use of leverage, the source of funds for expansion through organic growth and strategic investments.

Normal Course Issuer Bid

On February 2, 2016, AGF announced that the Toronto Stock Exchange (TSX) had approved AGF's notice of intention to renew its normal course issuer bid (NCIB) in respect of its Class B Non-Voting shares. AGF believes that the purchase for cancellation of Class B Non-Voting shares represents a desirable use of capital when, if in the opinion of management, the value of the Class B Non-Voting shares is attractive relative to the trading price of said shares. Purchase for cancellation by AGF of outstanding Class B Non-Voting shares may also be used to offset the dilutive effect of treasury stock released for the employee benefit trust and of shares issued through the Company's stock option plans and dividend reinvestment plan. AGF relies on an automatic purchase plan during the normal course issuer bid. The automatic purchase plan allows for purchases by AGF of its Class B Non-Voting shares during certain pre-determined black-out periods, subject to certain parameters. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its normal course issuer bid, the Class B Non-Voting shares may be repurchased from time to time at prevailing market prices or such other price as may be permitted by the TSX for amounts as follows:

- Between February 4, 2016 and February 3, 2017, up to 4,664,042 Class B Non-Voting shares, or 10% of the public float for such shares, through the facilities of the TSX (or as otherwise permitted by the TSX); and
- Between February 4, 2015 and February 3, 2016, up to 6,707,999 Class B Non-Voting shares, or 10% of the public float for such shares, through the facilities of the TSX (or as otherwise permitted by the TSX).

During the three months ended February 29, 2016, under its normal course issuer bid, AGF repurchased 1,000,000 Class B Non-Voting shares for a total consideration of $5.1 million at an average price of $5.10 per share.

During the three months ended February 29, 2016, under its normal course issuer bid, AGF purchased 60,000 Class B Non-Voting shares for the employee benefit trust for a total consideration of $0.3 million at an average price of $4.45 per share.

Dividends

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

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

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

Years ended November 30	2016 [1]	2015	2014	2013	2012
Per share	$ 0.16	$ 0.51	$ 1.08	$ 1.08	$ 1.08

[1] Represents the total dividends paid in December 2015 and to be paid in April 2016.

We review our dividend distribution policy on a quarterly basis, taking into account our financial position, profitability, cash flow and other factors considered relevant by our Board of Directors. The quarterly dividend paid on December 29, 2015 was $0.08 per share.

Outstanding Share Data

Set out below is our outstanding share data as at February 29, 2016 and February 28, 2015. For additional detail, see Notes 9 and 13 of the condensed consolidated interim financial statements.

	February 29, 2016	February 28, 2015
Shares		
Class A Voting common shares	57,600	57,600
Class B Non-Voting shares	79,178,183	83,334,838
Stock Options		
Outstanding options	7,675,000	5,609,135
Exercisable options	3,028,523	2,741,349

Key Performance Indicators, Additional IFRS and Non-IFRS Measures

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

Income

Income is a measurement defined by IFRS and is recorded net of fee rebates and sales taxes. Income is indicative of our potential to deliver cash flow.

We derive our income principally from a combination of:

- management and advisory fees based on AUM,
- DSC earned from investors when mutual fund securities sold on a DSC basis are redeemed,
- 32.3% equity interest in S&WHL, and
- long-term investments in the alternative asset management platform.

EBITDA

We define EBITDA as earnings before interest, taxes, depreciation and amortization. EBITDA is a standard measure used in the mutual fund industry by management, investors and investment analysts to understand and compare results. We believe this is an important measure as it allows us to assess our investment management businesses without the impact of non-operational items.

Please see the Consolidated Operating Results section on page 9 of this MD&A for a schedule showing how EBITDA reconciles to our IFRS financial statements.

Free Cash Flow

Free cash flow represents cash available for distribution to our shareholders, share buybacks, investment in our alternative asset management platform and general corporate purposes. We define free cash flow as cash flow from operations before net changes in non-cash balances related to operations less interest paid and adjusted for certain tax items outlined below. Free cash flow is a relevant measure in the investment management business since a substantial amount of cash is spent on upfront commission payments.

(in millions of Canadian dollars) **Three months ended**	**February 29, 2016**	**February 28, 2015**
Net cash used in operating activities	$ (16.3)	$ (24.5)
Adjusted for:		
Net changes in non-cash working capital balances related to operations	25.8	23.4
Taxes paid related to transfer pricing audit and other tax contingencies	2.8	14.5
Interest paid	(2.3)	(2.7)
Prior years' cash taxes paid and anticipated cash taxes to be refunded related to the current year operations	1.1	4.7
Free cash flow	$ 11.1	$ 15.4

EBITDA Margin

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

(in millions of Canadian dollars) **Three months ended**	**February 29, 2016**	**February 28, 2015**
EBITDA	$ 27.3	$ 33.9
Divided by income	103.3	111.7
EBITDA margin	26.4%	30.3%

Pre-tax Profit Margin

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

(in millions of Canadian dollars) **Three months ended**	**February 29, 2016**	**February 28, 2015**
Net income	$ 10.1	$ 13.6
Add: income taxes	2.8	4.5
Income before taxes	$ 12.9	$ 18.1
Divided by income	103.3	111.7
Pre-tax profit margin	12.5%	16.2%

Return on Equity (ROE)

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

(in millions of Canadian dollars) **Three months ended**	**February 29, 2016**	**February 28, 2015**
Net income (annualized)	$ 40.4	$ 54.4
Divided by average shareholders' equity	904.5	918.7
Return on equity	4.5%	5.9%

Long-term Debt to EBITDA Ratio

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

(in millions of Canadian dollars) Three months ended	February 29, 2016	February 28, 2015
Long-term debt	$ 268.9	$ 268.5
Divided by EBITDA (annualized)	109.2	135.6
Long-term debt to EBITDA ratio	246.2%	198.0%

Assets Under Management

The amount of AUM and the related fee rates are important to our business as these are the drivers of our revenue from our mutual fund, institutional and sub-advisory accounts and private client relationships and alternative asset management platform. AUM will fluctuate in value as a result of investment performance, sales and redemptions and crystallization of long-term investments. Mutual fund sales and AUM determine a significant portion of our expenses because we pay upfront commissions on gross sales and trailing commissions to financial advisors as well as investment advisory fees based on the value of AUM.

Investment Performance

Investment performance, which represents market appreciation (depreciation) of fund portfolios and is shown net of management fees received, is a key driver of the level of AUM and is central to the value proposition that we offer advisors and unitholders. Growth in AUM resulting from investment performance increases the wealth of our unitholders and, in turn, we benefit from higher revenues. Alternatively, poor investment performance will reduce our AUM levels and result in lower management fee revenues. Strong relative investment performance may also contribute to growth in gross sales or reduced levels of redemptions. Conversely, poor relative investment performance may result in lower gross sales and higher levels of redemptions. Refer to the 'Risk Factors and Management of Risk' section of our 2015 Annual MD&A.

Net Sales (Redemptions)

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

Market Capitalization

The Company's Class B Non-Voting share price continued to experience downward pressure during 2016. As a result, AGF's market capitalization of $382.4 million remained below its recorded net assets of $904.3 million. In 2015, we utilized independent valuation specialists to determine the fair value of AGF's cash-generating units (CGUs). Based on the result of the valuation, the recoverable amount of each CGU exceeded its carrying value as at November 30, 2015. There have been no significant changes to the recoverable amount of each CGU as at February 29, 2016. Estimating the fair value of CGUs is a subjective process that involves the use of estimates and judgements, particularly related to cash flows, the appropriate discount rates, terminal growth rates and an applicable control premium.

Managing Risk

AGF is subject to a number of risk factors that may impact our operating and financial performance. These risks and the management of these risks are detailed in our 2015 Annual MD&A in the section entitled 'Risk Factors and Management of Risk.' The Company has not identified any material changes to the risk factors affecting its business or in the management of these risks.

Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have designed or caused the design of the Internal Controls Over Financial Reporting (ICFR) and Disclosure Controls and Procedures. There have been no changes in AGF's internal controls during the three months ended February 29, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Additional Information

Additional information relating to the Company can be found in the Company's Condensed Consolidated Interim Financial Statements and accompanying notes for the three months ended February 29, 2016, the Company's 2015 Annual Information Form (AIF) and and Annual Report, and other documents filed with applicable securities regulators in Canada and may be accessed at www.sedar.com.

AGF Management Limited
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended February 29, 2016 and February 28, 2015

AGF Management Limited
Consolidated Interim Statement of Financial Position

(unaudited) (in thousands of Canadian dollars)	Note	February 29, 2016	November 30, 2015
Assets			
Current Assets			
Cash and cash equivalents		$ 13,960	$ 48,669
Investments	4	24,755	23,427
Accounts receivable, prepaid expenses and other assets		45,893	40,242
Income tax receivable	14, 19	1,248	149
		85,856	112,487
Investment in associate and joint venture	5	103,929	106,229
Long-term investments	5, 21	145,444	140,534
Management contracts	7	689,759	689,759
Customer contracts, net of accumulated amortization and derecognition	7	8,860	9,660
Goodwill	7	249,952	249,952
Other intangibles, net of accumulated amortization and derecognition	7	7,076	8,130
Deferred selling commissions, net of accumulated amortization and derecognition	7	98,598	99,291
Property, equipment and computer software, net of accumulated depreciation		12,390	9,990
Deferred income tax assets		2,073	3,102
Income tax receivable	14, 19	8,781	6,683
Other assets	5	130	1,108
Total assets		$ 1,412,848	$ 1,436,925
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	13	$ 53,038	$ 69,325
Provision for Elements Advantage		1,160	1,412
Derivative financial instrument		1,291	1,763
		55,489	72,500
Long-term debt	8	268,852	268,782
Contingent consideration payable	6	1,990	1,990
Deferred income tax liabilities		174,863	175,548
Provision for Elements Advantage		1,010	1,159
Other long-term liabilities	13	6,315	6,093
Total liabilities		508,519	526,072
Equity			
Equity attributable to owners of the Company			
Capital stock	9	478,651	481,265
Contributed surplus	13	37,547	40,336
Retained earnings		366,019	361,383
Accumulated other comprehensive income	10	19,099	24,734
		901,316	907,718
Non-controlling interest	6	3,013	3,135
Total equity		904,329	910,853
Total liabilities and equity		$ 1,412,848	$ 1,436,925

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

AGF Management Limited
Consolidated Interim Statement of Income

(unaudited)		Three months ended	
(in thousands of Canadian dollars, except per share data)	Note	February 29, 2016	February 28, 2015
Income			
Management and advisory fees		$ 94,965	$ 102,513
Deferred sales charges		2,374	2,599
Share of profit of associate and joint ventures	5	4,076	3,905
Fair value adjustments and other income	5, 11	1,917	2,698
Total income		103,332	111,715
Expenses			
Selling, general and administrative	12	45,267	44,753
Trailing commissions		30,000	31,361
Investment advisory fees		720	1,606
Amortization and derecognition of deferred selling commissions		9,286	10,385
Amortization and derecognition of customer contracts		800	762
Amortization and derecognition of other intangibles		1,054	1,177
Depreciation of property, equipment and computer software		1,016	655
Interest expense		2,320	2,943
		90,463	93,642
Income before income taxes		**12,869**	**18,073**
Income tax expense (benefit)			
Current	14	2,870	4,211
Deferred	14	(64)	307
		2,806	4,518
Net income for the period		**$ 10,063**	**$ 13,555**
Net income (loss) attributable to:			
Equity owners of the Company		$ 10,185	$ 13,555
Non-controlling interest		(122)	–
		$ 10,063	$ 13,555
Earnings per share for the period attributable to equity owners of the Company			
Basic earnings per share	15	$ 0.13	$ 0.16
Diluted earnings per share	15	$ 0.13	$ 0.16

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

AGF Management Limited
Consolidated Interim Statement of Comprehensive Income

(unaudited)	Three months ended			
(in thousands of Canadian dollars)		February 29, 2016		February 28, 2015
Net income for the period	$	10,063	$	13,555
Other comprehensive income (loss), net of tax				
Cumulative translation adjustment				
Foreign currency translation adjustments related to net investments in foreign operations		(6,361)		7,475
		(6,361)		7,475
Net unrealized gains on investments				
Unrealized gains		377		314
		377		314
Net unrealized gains (losses) on cash flow hedge				
Unrealized gains (losses)		11		(654)
Reclassification of realized loss to earnings		338		260
		349		(394)
Total other comprehensive income (loss), net of tax		(5,635)		7,395
Comprehensive income	$	4,428	$	20,950
Comprehensive income (loss) attributable to:				
Equity holders of the Company	$	4,550	$	20,950
Non-controlling interest		(122)		–
	$	4,428	$	20,950

All items presented in other comprehensive income will be reclassified to the consolidated statement of income in subsequent years.

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

AGF Management Limited
Consolidated Interim Statement of Changes in Equity

(in thousands of Canadian dollars)	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Attributable to equity owners of the Company	Non-controlling interest	Total equity
Balance, December 1, 2014	$ 517,467	$ 39,584	$ 361,628	$ 11,096	**$ 929,775**	$ –	**$ 929,775**
Net income for the period	–	–	13,555	–	**13,555**	–	**13,555**
Other comprehensive income (net of tax)	–	–	–	7,395	**7,395**	–	**7,395**
Comprehensive income for the period	–	–	13,555	7,395	**20,950**	–	**20,950**
Issued through dividend reinvestment plan	296	–	–	–	**296**	–	**296**
Stock options	101	371	–	–	**472**	–	**472**
AGF Class B Non-Voting shares repurchased for cancellation	(16,918)	–	(4,820)	–	**(21,738)**	–	**(21,738)**
Dividends on AGF Class A Voting common shares and AGF Class B Non-Voting shares, including tax of $0.1 million	–	–	(23,096)	–	**(23,096)**	–	**(23,096)**
Equity-settled Restricted Share Units and Partner Points, net of tax	–	(2,616)	–	–	**(2,616)**	–	**(2,616)**
Treasury stock	3,619	–	–	–	**3,619**	–	**3,619**
Balance, February 28, 2015	$ 504,565	$ 37,339	$ 347,267	$ 18,491	**$ 907,662**	$ –	**$ 907,662**
Balance, December 1, 2015	$ 481,265	$ 40,336	$ 361,383	$ 24,734	**$ 907,718**	$ 3,135	**$ 910,853**
Net income for the period	–	–	10,185	–	**10,185**	(122)	**10,063**
Other comprehensive loss (net of tax)	–	–	–	(5,635)	**(5,635)**	–	**(5,635)**
Comprehensive income (loss) for the period	–	–	10,185	(5,635)	**4,550**	(122)	**4,428**
Issued through dividend reinvestment plan	89	–	–	–	**89**	–	**89**
Stock options	–	425	–	–	**425**	–	**425**
AGF Class B Non-Voting shares repurchased for cancellation	(6,069)	–	954	–	**(5,115)**	–	**(5,115)**
Dividends on AGF Class A Voting common shares and AGF Class B Non-Voting shares, including tax of $0.1 million	–	–	(6,503)	–	**(6,503)**	–	**(6,503)**
Equity-settled Restricted Share Units and Partner Points, net of tax	–	(3,214)	–	–	**(3,214)**	–	**(3,214)**
Treasury stock	3,366	–	–	–	**3,366**	–	**3,366**
Balance, February 29, 2016	**$ 478,651**	**$ 37,547**	**$ 366,019**	**$ 19,099**	**$ 901,316**	**$ 3,013**	**$ 904,329**

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

AGF Management Limited
Consolidated Interim Statement of Cash Flow

(unaudited)		Three months ended	
(in thousands of Canadian dollars)	Note	February 29, 2016	February 28, 2015
Operating Activities			
Net income for the period		$ 10,063	$ 13,555
Adjustments for			
Amortization, derecognition and depreciation		12,156	12,979
Interest expense		2,320	2,943
Income tax expense	14	2,806	4,518
Income taxes paid		(6,154)	(22,552)
Stock-based compensation	13	1,019	2,183
Share of profit of associate and joint venture	5	(4,076)	(3,905)
Deferred selling commissions paid		(8,593)	(9,633)
Fair value adjustment on long-term investments	5	(1,482)	(156)
Other		1,441	(1,079)
		9,500	(1,147)
Net change in non-cash working capital balances related to operations			
Accounts receivable		(5,653)	1,513
Other assets		1,437	(33)
Accounts payable and accrued liabilities		(21,787)	(24,586)
Other liabilities		226	(264)
		(25,777)	(23,370)
Net cash used in operating activities		(16,277)	(24,517)
Financing Activities			
Repurchase of Class B Non-Voting shares for cancellation	9	(5,115)	(21,738)
Issue of Class B Non-Voting shares	9	–	91
Purchase of treasury stock	9	(267)	–
Dividends paid	16	(6,333)	(22,660)
Repayment of long-term debt	8	–	(40,000)
Issuance of short-term bridge facility	8	–	89,100
Repayment of short-term bridge facility	8	–	(89,100)
Interest paid		(2,345)	(2,677)
Net cash used in financing activities		(14,060)	(86,984)
Investing Activities			
Purchase of long-term investments	5	(3,428)	(110,303)
Purchase of property, equipment and computer software, net of disposals		(3,416)	(838)
Purchase of short-term investments	4	(2,517)	(2,839)
Proceeds from sale of short-term investments	4	309	881
Proceeds from acquisitions and disposals		4,680	–
Net cash used in investing activities		(4,372)	(113,099)
Decrease in cash and cash equivalents		(34,709)	(224,600)
Balance of cash and cash equivalents, beginning of period		48,669	261,498
Balance of cash and cash equivalents, end of period		$ 13,960	$ 36,898

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

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended February 29, 2016 and February 28, 2015 (unaudited)

Note 1: General Information

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

The Company is an integrated, global wealth management corporation whose principal subsidiaries provide investment management for mutual funds, institutions and corporations, as well as high-net-worth clients. The Company conducts the management and distribution of mutual funds in Canada under the brand names AGF, Elements and Harmony (collectively, AGF Investments). The Company's wholly owned subsidiary AGF CustomerFirst Inc. (AGFC) provides transfer agency services to the AGF mutual funds. The Company also holds a controlling interest in FFCM, LLC and investments in an associate, Smith & Williamson Holdings Limited (S&WHL), and in joint ventures InstarAGF Inc. (InstarAGF), Stream Asset Financial Management LP (SAFMLP) and Stream Asset Financial LP (Stream).

These condensed consolidated financial statements were authorized for issue by the Board of Directors on March 22, 2016.

Note 2: Basis of Preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including International Accounting Standard 34 (IAS 34), Interim Financial Reporting. The accounting policies in these condensed consolidated interim financial statements are consistent with those disclosed in the Company's annual consolidated financial statements for the year ended November 30, 2015. The condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for year ended November 30, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

Certain comparative figures have been reclassified to conform to the consolidated interim financial statement presentation in the current year.

Note 3: Adoption of New and Revised Accounting Standards

The accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended November 30, 2015. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Note 4: Investments

The following table presents a breakdown of investments:

(in thousands of Canadian dollars)	February 29, 2016	November 30, 2015
Fair value through profit or loss		
AGF mutual funds and other	$ 17,865	$ 17,201
Equity securities	504	531
	18,369	17,732
Available for sale		
Equity securities and term deposits	6,076	5,385
Loans and receivables		
Canadian government debt – Federal	310	310
	$ 24,755	$ 23,427

During the three months ended February 29, 2016 and February 28, 2015, no impairment charges were required.

Note 5: Investment in Associate, Joint Ventures and Long-term Investments

(a) Investment in Associate

The Company holds a 32.3% investment in S&WHL accounted for using the equity method. At February 29, 2016, the carrying value was $102.8 million (November 30, 2015 – $105.3 million). During the three months ended February 29, 2016, the Company recognized earnings of $3.9 million (2015 – $3.7 million) from S&WHL.

(b) Investment in Joint Ventures

The continuity for the investment in SAFMLP and InstarAGF, a joint venture with Instar Group Inc., accounted for under the equity method, for the three months ended February 29, 2016 and February 28, 2015 is as follows:

Three months ended	February 29, 2016			February 28, 2015		
(in thousands of Canadian dollars)	SAFMLP	InstarAGF	Total	SAFMLP	InstarAGF	Total
Balance, beginning of period	$ 933	$ –	$ 933	$ 312	$ –	$ 312
Share of profit[1]	222	–	222	163	–	163
Balance, end of period	$ 1,155	$ –	$ 1,155	$ 475	$ –	$ 475

[1]Excludes the Company's portion of the estimated carried interest to be distributed to AGF on crystallization.

The Company has recorded losses with respect to its equity investment in InstarAGF only to the extent of its initial investment, which has a carrying value of nil, because it is not contractually obligated to fund the losses. As at February 29, 2016, the Company accumulated unrecognized losses of $1.5 million (November 30, 2015 – $1.3 million) related to its interest in InstarAGF. In addition, AGF has agreed to advance up to $5.0 million to InstarAGF on an as-needed basis as a working capital loan facility. The loan facility is non-interest bearing and is repayable on a priority basis once InstarAGF begins to earn fees from funds under management. As at February 29, 2016, the Company had recorded a receivable of $4.4 million (November 30, 2015 – $3.3 million), primarily included in accounts receivable, prepaid expenses and other assets on the consolidated interim statement of financial position.

As at February 29, 2016, the Company had recorded a $1.0 million promissory note receivable from Instar Group Inc. (November 30, 2015 – $1.0 million). The note bears interest at prime and has been included in accounts receivable, prepaid expenses and other assets on the consolidated interim statement of financial position.

(c) Investment in Long-term Investments

The continuity for the investment in Stream and InstarAGF Essential Infrastructure Fund (EIF), accounted for at fair value through profit or loss (FVTPL), for the period ended February 29, 2016 and February 28, 2015 is as follows:

Three months ended	February 29, 2016			February 28, 2015		
(in thousands of Canadian dollars)	Stream	EIF	Total	Stream	EIF	Total
Balance, beginning of period	$ 25,433	$ 115,101	$ 140,534	$ 16,471	$ 3,200	$ 19,671
Purchase of long-term investments	–	3,428	3,428	6,953	103,350	110,303
Reclassification of investment	–	–	–	–	(63)	(63)
Fair value adjustment[1]	(617)	2,099	1,482	(494)	650	156
Balance, end of period	$ 24,816	$ 120,628	$ 145,444	$ 22,930	$ 107,137	$ 130,067

[1]Fair value adjustment in Stream is based on the net assets of the fund less the Company's portion of the carried interest that would be payable by the fund upon crystallization.

The Company has committed a total of $150.0 million to funds and investments associated with the alternative asset management platform. The Company may temporarily provide capital to warehouse investments prior to formation of a fund. Upon closing of a fund with external investors, the Company receives a return of its capital in excess of its proportionate participation in the fund. The Company has designated its long-term investments in the funds at FVTPL.

As at February 29, 2016, of its $150.0 million allocation, the Company had committed $50.0 million to Stream, a midstream oil and gas infrastructure fund. As at February 29, 2016, the Company had invested $38.4 million (November 30, 2015 – $38.4 million) with $11.6 million remaining committed capital to be invested in the Stream fund.

The Company has committed $100.0 million to EIF. On January 27, 2015, the capital invested by the Company, together with amounts invested by Instar, was deployed to acquire an interest in the passenger terminal at Billy Bishop Toronto City Airport alongside other Canadian and international equity investors. On March 2, 2016, InstarAGF announced the first close of EIF. Refer to Note 20 for additional information.

The following table presents a breakdown of the amounts included in fair value adjustment and other income on the consolidated interim statement of income for the three months ended February 29, 2016 and February 28, 2015:

Three months ended	February 29, 2016			February 28, 2015		
(in thousands of Canadian dollars)	Stream	EIF	Total	Stream	EIF	Total
Distribution income	$ 655	$ 659	$ 1,314	$ 1,100	$ –	$ 1,100
Fair value adjustment[1]	(617)	2,099	1,482	(494)	650	156
	$ 38	$ 2,758	$ 2,796	$ 606	$ 650	$ 1,256

[1]Fair value adjustment in Stream is based on the net assets of the fund less the Company's portion of the carried interest that would be payable by the fund upon crystallization.

Note 6: Acquisitions

(a) Acquisition of FFCM, LLC

On November 16, 2015, the Company acquired 51.0% of FFCM for a cash purchase price of $6.7 million. FFCM is a Boston-based exchange-traded funds (ETF) advisor and asset management firm whose expertise is delivered through a family of alternative and smart-beta ETFs and a number of ETF managed solutions.

In addition, the agreement includes contingent consideration if the annualized advisory revenue of FFCM exceeds certain thresholds in 2018, up to a maximum of $6.7 million. Accordingly, a contingent consideration payable of $2.0 million was recorded on the acquisition of FFCM and is included on the statement of financial position, representing management's best estimate of the fair value thereof. The key assumption used in the analysis was the growth rate in annualized advisory revenue. A 1% increase or decrease in the growth rate would result in an increase or decrease to the undiscounted contingent consideration payable of $0.1 million and $0.3 million, respectively.

The non-controlling interest was measured based on its proportionate share of FFCM's net identifiable assets.

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

(in thousands of Canadian dollars)		
Net identifiable assets acquired		
Cash	$	253
Investments		4
Accounts receivable, prepaid expenses and other assets		130
Customer contracts		6,313
Goodwill		5,403
Accounts payable and accrued liabilities		(300)
Non-controlling interest		(3,135)
	$	8,668
Consideration paid		
Cash	$	6,678
Contingent consideration payable		1,990
	$	8,668

(b) AGF CustomerFirst Inc. (AGFC)

During the three months ended February 29, 2016, AGF completed the transition to internalize the Company's transfer agency function within AGF. The Company did not acquire any significant net assets as a result of the acquisition. The transition included the transfer of 171 employees from Citigroup Fund Services Canada Inc. (CFSC) to AGFC. AGF invested approximately $6.0 million of capital for leaseholds, facilities and technology. As part of this transition agreement, the Company also entered into a four-year service agreement with L&T Infotech Financial Services Technologies Inc. (L&T). The agreement with L&T includes a minimum annual payment commitment of $7.8 million per year for services provided. This commitment expires in 2019.

Note 7: Intangible Assets

Management regularly monitors its intangible assets for indications of potential impairment. There have been no significant changes to the recoverable amounts or indicators for potential impairment of the Company's cash generating units (CGUs) and related inputs from those disclosed in the Company's annual consolidated financial statements for the year ended November 30, 2015. For additional information refer to the Company's annual consolidated financial statements for year ended November 30, 2015.

Note 8: Long-term Debt

(a) As at February 29, 2016, AGF had drawn $270.0 million (November 30, 2015 – $270.0 million) against the unsecured revolving credit facility (the Facility) in the form of a one-month banker's acceptance (BA) at an effective average interest rate of 2.62% per annum. During the three months ended February 28, 2015, the Company repaid $40.0 million of its previous revolving credit facility.

(b) On January 26, 2015, the Company arranged for a seven-day $100.0 million bridge facility through a Canadian chartered bank to fund an alternative asset investment. On January 26, 2015, AGF drew $89.1 million against the bridge facility, which was secured by the Company's term deposits held by the bank. The bridge facility was fully repaid on February 2, 2015. Refer to Note 5(c) for additional information on the investment in long-term investments.

Note 9: Capital Stock

(a) Authorized Capital

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

(b) Changes During the Period

The change in capital stock is summarized as follows:

Three months ended	February 29, 2016			February 28, 2015		
(in thousands of Canadian dollars, except share amounts)	Shares		Stated value	Shares		Stated value
Class A Voting common shares	57,600	$	–	57,600	$	–
Class B Non-Voting shares						
Balance, beginning of the period	79,517,587	$	481,265	85,703,751	$	517,467
Issued through dividend reinvestment plan	17,713		89	36,279		296
Stock options exercised	–		–	10,179		101
Repurchased for cancellation	(1,000,000)		(6,069)	(2,788,040)		(16,918)
Treasury stock purchased for employee benefit trust	(60,000)		(267)	–		–
Treasury stock released for employee benefit trust	702,883		3,633	372,669		3,619
Balance, end of the period	79,178,183	$	478,651	83,334,838	$	504,565

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

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B Non-Voting shares through the facilities of the TSX (or as otherwise permitted by the TSX). AGF relies on an automatic purchase plan during the normal course issuer bid. The automatic purchase plan allows for purchases by AGF of its Class B Non-Voting shares during certain pre-determined black-out periods, subject to certain parameters. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its normal course issuer bid, AGF may purchase up to 10% of the public float outstanding on the date of the receipt of regulatory approval or up to 4,664,042 shares for the period from February 4, 2016 to February 3, 2017 and up to 6,707,999 shares for the period from February 4, 2015 to February 3, 2016. During the three months ended February 29, 2016, under AGF's normal course issuer bid, 1,000,000 (2015 – 2,788,040) Class B Non-Voting shares were repurchased at a cost of $5.1 million (2015 – $21.7 million) and the excess recovered of $1.0 million (2015 – $4.8 million excess paid) over the recorded capital stock value of the shares repurchased for cancellation was recorded in retained earnings.

(d) Class B Non-Voting Shares Purchased as Treasury Stock for Employee Benefit Trust

During the three months ended February 29, 2016, 60,000 (2015 – nil) Class B Non-Voting shares were purchased for the employee benefit trust at a cost of $0.3 million (2015 – nil). Shares purchased for the trust are also purchased under the Company's normal course issuer bid and recorded as a reduction to capital stock. During the three months ended February 29, 2016, 702,883 (2015 – 372,669) Class B Non-Voting shares purchased as treasury stock were released. As at February 29, 2016, 497,878 (November 30, 2015 – 1,140,761) Class B Non-Voting shares were held as treasury stock.

Note 10: Accumulated Other Comprehensive Income (Loss)

(in thousands of Canadian dollars)	Foreign currency translation	Available for sale securities	Cash flow hedge	Total
Opening composition of accumulated other comprehensive income (loss) at November 30, 2014				
Accumulated other comprehensive income (loss)	$ 9,342	$ 3,512	$ (2,315)	$ 10,539
Income tax recovery (expense)	–	(57)	614	557
Balance, November 30, 2014	9,342	3,455	(1,701)	11,096
Transactions during the year ended November 30, 2015				
Other comprehensive income	12,366	735	800	13,901
Income tax expense	–	(51)	(212)	(263)
Balance, November 30, 2015	21,708	4,139	(1,113)	24,734
Transactions during the period ended February 29, 2016				
Other comprehensive income (loss)	(6,361)	418	475	(5,468)
Income tax expense	–	(41)	(126)	(167)
Balance, February 29, 2016	$ 15,347	$ 4,516	$ (764)	$ 19,099

Note 11: Fair Value Adjustments and Other Income

Three months ended (in thousands of Canadian dollars)	February 29, 2016	February 28, 2015
Fair value adjustment related to investment in AGF mutual funds (Note 4)	$ (1,414)	$ 935
Fair value adjustment and distributions related to long-term investments (Note 5(c))	2,796	1,256
Interest income	281	682
Other	254	(175)
	$ 1,917	$ 2,698

Note 12: Expenses by Nature

Three months ended (in thousands of Canadian dollars)	February 29, 2016	February 28, 2015
Selling, general and administrative		
Employee benefit expense	$ 27,880	$ 27,821
Sales and marketing	2,409	2,664
Information technology and facilities	6,887	5,238
Professional fees	4,349	3,617
Fund absorption and other fund costs	2,699	4,221
Other	1,043	1,192
	$ 45,267	$ 44,753

Note 13: Stock-based Compensation and Other Stock-based Payments

(a) Stock Option Plans

Under the Company's stock option plans, an additional maximum of 721,118 Class B Non-Voting shares could have been granted as at February 29, 2016 (November 30, 2015 – 2,293,337).

The change in stock options during the three months ended February 29, 2016 and February 28, 2015 is summarized as follows:

Three months ended	February 29, 2016			February 28, 2015		
	Options		Weighted average exercise price	Options		Weighted average exercise price
Class B Non-Voting share options						
Balance, beginning of the period	6,102,781	$	10.69	4,428,542	$	12.86
Options granted	1,610,394		4.59	1,195,862		7.88
Options forfeited	(38,175)		8.93	(5,090)		8.93
Options exercised	–		–	(10,179)		8.93
Balance, end of the period	7,675,000	$	9.42	5,609,135	$	11.81

During the three months ended February 29, 2016, 1,610,394 (2015 – 1,195,862) stock options were granted and compensation expense and contributed surplus of $0.4 million (2015 – $0.4 million) was recorded. The fair value of options granted during the three months ended February 29, 2016 has been estimated at $0.52 per option (2015 – $1.40) using the Black-Scholes option-pricing model. The following assumptions were used to determine the fair value of the options granted during the three months ended February 29, 2016 and February 28, 2015:

Three months ended	February 29, 2016	February 28, 2015
Risk-free interest rate	0.6%	0.7%
Expected dividend yield	7.0%	4.1%
Five-year historical-based expected share price volatility	30.5%	33.1%
Forfeiture rate	5.0%	5.1%
Option term	5.0 years	5.0 years

(b) Other Stock-based Compensation

Other stock-based compensation includes Restricted Share Units (RSUs), Performance Share Units (PSUs), Deferred Share Units (DSUs) and Partners Incentive Plan (PIP). Compensation expense for the three months ended February 29, 2016 related to these share units was $0.7 million (2015 – $1.5 million). As at February 29, 2016, the Company recorded a liability of $1.4 million (November 30, 2015 – $1.8 million) related to other cash-settled stock-based compensation. As at February 29, 2016, the Company recorded contributed surplus of $6.2 million (November 30, 2015 – $9.4 million), net of tax, related to equity-settled RSUs and PIP.

The change in share units of RSUs, PSUs and DSUs during the three months ended February 29, 2016 and February 28, 2015 is as follows:

Three months ended	February 29, 2016	February 28, 2015
	Number of share units	Number of share units
Outstanding, beginning of the period		
Non-vested	1,149,063	1,662,192
Issued		
Initial grant	826,890	644,290
In lieu of dividends	17,144	45,158
Settled in cash	–	(36,106)
Settled in equity	–	(372,669)
Forfeited and cancelled	(45,032)	(30,449)
Outstanding, end of the period	1,948,065	1,912,416

Note 14: Income Tax Expense

Income tax expense is recognized based on management's best estimate of weighted average annual income tax rate expected for the full financial year. The estimated effective tax rate for the three months ended February 29, 2016 was 21.8% (2015 – 25.0%).

During the three months ended February 29, 2016, the Company recorded tax contingencies of $0.7 million (2015 – $0.4 million) with respect to the Canada Revenue Agency (CRA) transfer pricing audit. Excluding the tax contingencies, the estimated effective tax rate for the three months ended February 29, 2016 was 16.3% (2015 – 22.9%). Refer to Note 19 for additional information on tax contingencies.

Note 15: Earnings per Share

Three months ended (in thousands of Canadian dollars, except per share amounts)	February 29, 2016	February 28, 2015
Numerator		
Net income for the period attributable to the equity holders of the Company	$ 10,185	$ 13,555
Denominator		
Weighted average number of shares – basic	79,449,122	84,644,212
Dilutive effect of employee stock-based compensation awards	36,459	803,238
Weighted average number of shares – diluted	79,485,581	85,447,450
Earnings per share for the period attributable to the equity holders of the Company		
Basic earnings per share	$ 0.13	$ 0.16
Diluted earnings per share	$ 0.13	$ 0.16

Note 16: Dividends

During the three months ended February 29, 2016, the Company paid dividends of $0.08 (2015 – $0.27) per share. Total dividends paid, including dividends reinvested, in the three months ended February 29, 2016 were $6.4 million (2015 – $23.0 million). On March 22, 2016, the Board of Directors of AGF declared a quarterly dividend on both the Class A Voting common shares and Class B Non-Voting shares of the Company of $0.08 per share in respect of the three months ended February 29, 2016, amounting to a total dividend of approximately $6.3 million. These condensed consolidated financial statements do not reflect this dividend payable.

Note 17: Related Party Transactions

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

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

Three months ended (in thousands of Canadian dollars)	**February 29, 2016**	**February 28, 2015**
Salaries and other short-term employee benefits	$ 1,082	$ 1,365
Share-based payments	462	389
	$ 1,544	$ 1,754

Note 18: Fair Value of Financial Instruments

Financial assets are classified as FVTPL, available for sale, or loans and receivables. Financial liabilities are classified as FVTPL, other liabilities, or derivatives used for hedging.

The carrying value of accounts receivable and other assets, accounts payable and accrued liabilities and long-term debt approximate fair value.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities,

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the group's assets and liabilities that are measured at fair value at February 29, 2016:

(in thousands of Canadian dollars) **February 29, 2016**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	$ 13,960	$ –	$ –	$ 13,960
AGF mutual funds and other	17,865	–	–	17,865
Equity securities	504	–	–	504
Long-term investments	–	–	145,444	145,444
Available for sale				
Equity securities and term deposits	6,076	–	–	6,076
Loans and receivables				
Canadian government debt – Federal	–	310	–	310
Total financial assets	$ 38,405	$ 310	$ 145,444	$ 184,159
Liabilities				
Financial liabilities at fair value through profit or loss				
Contingent consideration payable	$ –	$ –	$ 1,990	$ 1,990
Derivatives used for hedging	–	1,291	–	1,291
Total financial liabilities	$ –	$ 1,291	$ 1,990	$ 3,281

The following table presents the group's assets and liabilities that were measured at fair value at November 30, 2015:

(in thousands of Canadian dollars) **November 30, 2015**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	$ 48,669	$ –	$ –	$ 48,669
AGF mutual funds and other	17,201	–	–	17,201
Equity securities	531	–	–	531
Long-term investments	–	–	140,534	140,534
Available for sale				
Equity securities	5,385	–	–	5,385
Loans and receivables				
Canadian government debt – Federal	–	310	–	310
Total financial assets	$ 71,786	$ 310	$ 140,534	$ 212,630
Liabilities				
Financial liabilities at fair value through profit or loss				
Contingent consideration payable	$ –	$ –	$ 1,990	$ 1,990
Derivatives used for hedging	–	1,763	–	1,763
Total financial liabilities	$ –	$ 1,763	$ 1,990	$ 3,753

The fair value of financial instruments traded in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place.

Level 1 instruments include listed equity securities on major exchanges, investments in AGF mutual funds, highly liquid temporary deposits with an Irish bank and non-Irish banks in Ireland, as well as Singapore bank term deposits.

Level 2 instruments include derivative instruments with major Canadian chartered banks and Canadian federal government debt. The fair value of derivatives used to manage interest rate exposure on deposits and long-term debt is calculated through discounting future expected cash flows using the BA-based swap curve. Since the BA-based swap curve is an observable input, these financial instruments are considered level 2. Canadian federal government debt is measured at amortized cost and its fair value approximates its carrying value due to its short-term nature.

Level 3 instruments include long-term investments related to the alternative asset management platform and contingent consideration payable. Instruments classified in this category have a parameter input or inputs that are unobservable and that have a more than insignificant impact on either the fair value of the instrument or the profit or loss of the instrument. The fair value of the long-term investments is calculated using the Company's percentage ownership and the fair market value of the investment derived from financial information provided by investees. The fair value of the Company's investment in EIF as at February 29, 2016 has been estimated using the net asset value as calculated by the asset manager of the fund, adjusted to reflect the Company's agreement to limit its initial return to a specified maximum percentage on the portion of its interest that it expects to be sold to new investors upon closing of the fund. The fair value of the Company's investment in the Stream fund is determined using net asset value (NAV) as calculated by the asset manager. If the NAV were to increase or decrease by 10%, the fair value of the Company's long-term investment and pre-tax income would increase or decrease by $2.5 million. Refer to Note 5(c) for additional information.

Contingent consideration payable is determined based on the present value of the expected payment to the sellers of FFCM, if the annualized advisory revenue in 2018 exceeds certain thresholds. Refer to Note 6 for additional information.

The following table presents changes in level 3 instruments for the three months ended February 29, 2016:

(in thousands of Canadian dollars)	**Long-term investments**	**Contingent consideration payable**
Balance at December 1, 2015	$ 140,534	$ 1,990
Purchase of investment	3,428	–
Fair value adjustment recognized in profit or loss	1,482	–
Balance at February 29, 2016	$ 145,444	$ 1,990

The following table presents changes in level 3 instruments for the three months ended February 28, 2015:

(in thousands of Canadian dollars)	Long-term investments
Balance at December 1, 2014	$ 19,671
Purchase of investment, net of return of capital	110,303
Fair value adjustment recognized in profit or loss	156
Reclassification of investment	(63)
Balance at February 28, 2015	$ 130,067

There were no transfers into or out of level 1 and level 2 during the three months ended February 29, 2016.

Note 19: Tax Contingencies

The Company believes that it has adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases, however, requires significant judgement in interpreting tax rules and regulations. The Company's tax filings are subject to audits, which could materially change the amount of the current and deferred income tax assets and liabilities, and could, in certain circumstances, result in the assessment of interest and penalties.

The Company has several ongoing disputes with the Canada Revenue Agency (CRA), of which the final result of the audit and appeals process may vary and may be materially different compared to the estimates and assumptions used by management in determining the Company's consolidated income tax provision and in determining the amounts of its income tax assets and liabilities.

(a) CRA Audit – Transfer Pricing

During the period November 30, 2013 to February 29, 2016, the Company has received a number of notices of reassessment (NOR) from the CRA for its 2005 through 2009 fiscal years relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary. The reassessments would increase the Company's taxes payable from its original tax filings by $53.2 million (before the application of interest and penalties of $29.7 million). During the first quarter of 2016, the Company received a proposal letter from the CRA for its fiscal year 2010 in relation to the same matter, which would increase the Company's taxes payable from its original filing by $7.8 million (before the application of any interest and penalties of approximately $3.8 million).

The Company strongly disagrees with the CRA's position and filed various objections to the NOR for the taxation years 2005 to 2009. In connection with the filing of an objection to the NOR for the applicable periods 2005 through 2009, the Company has paid approximately $56.8 million of which $2.8 million was paid (including interest and penalties) during the three months ended February 29, 2016 in relation to the 2009 NOR.

In consultation with its external advisors, the Company believes that its transfer pricing methodology was reasonable and the Company is contesting the CRA's position and any related transfer pricing penalty. The Company believes it is likely that the CRA will reassess its taxes for subsequent years on a similar basis and that these may result in future cash payments on receipt of the reassessments. During the three months ended February 29, 2016, the Company has recorded a tax expense of $0.7 million (2015 – $0.4 million) in relation to this transfer pricing audit. The amount of tax provision recorded on the consolidated interim statement of financial position reflects management's best estimate on the ultimate resolution of this matter and includes any related estimated interest and penalties for the 2005 to 2016 fiscal years.

Further to the Company's objection to the NOR, the Company is also seeking Competent Authority relief from double taxation under the applicable tax treaty. The Company's provision, which reflects its best estimate of the ultimate resolution of this matter, includes an expected recovery of approximately $14.8 million for the tax years 2005 through 2010. Any relief from double taxation should be granted at the completion of the mutual agreement procedures (MAP) under the applicable tax treaty.

In 2013, the Company was accepted by the CRA into a Bilateral Advance Pricing Arrangement (BAPA) between Canada and the relevant tax authorities to establish the appropriate transfer pricing methodologies for the tax years 2011 through 2016. Under a BAPA, the taxpayer will receive certainty as to its transfer pricing arrangements for the years under consideration, will not be assessed transfer-pricing penalties, and can avoid double taxation on transactions covered by the BAPA according to the provisions of the income tax treaty between Canada and the foreign country.

(b) CRA Audit – Foreign Accrual Property Income

In May 2015, the Company received a proposal letter from the CRA relating to foreign accrual property income (FAPI) earned by its foreign subsidiaries for the 2007 to 2012 fiscal years. The 2007 fiscal year has since been statute-barred and in September 2015, as a result of further review, the CRA has withdrawn its proposal on this issue for the 2008 to 2012 fiscal years. Despite the withdrawal of the proposal letter, the audit for the 2008 to 2012 fiscal years continues. The Company continues to believe that its tax position is correct and has not recorded a provision for this issue.

(c) CRA Audit – Acquisition of Tax-Related Benefits

In July 2015, the Company received a NOR from the CRA denying $30.5 million of tax-related benefits acquired and utilized by the Company in the 2005 fiscal year. The NOR would increase the Company's taxes payable from its original tax filings by $10.9 million (before the application of interest and penalties of $9.7 million). The Company strongly disagrees with the CRA's position and has filed an objection to the NOR. As a result of receiving the NOR, the Company has paid $13.5 million (including interest and penalties) during the year ended November 30, 2015, which was recorded as income tax receivable on the consolidated interim statement of financial position. The ultimate outcome of this matter is not yet determinable. In consultation with its external advisors, the Company believes that its tax position is probable of being sustained and, as a result, has not recorded a provision in relation to this matter.

Note 20: Subsequent Event

On March 2, 2016, InstarAGF announced the successful first close of EIF with $372.0 million in firm equity commitments. InstarAGF expects to achieve the final closing of the fund by the end of 2016. In connection with the close, the Company received net cash of $73.6 million, the majority of which represents a return of capital to bring the Company's invested capital in line with its proportionate share of total commitments offset by $9.6 million of additional capital call.

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