

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

For the three and six months ended May 31, 2015 and 2014



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AGF MANAGEMENT LIMITED

**Second Quarter Report to Shareholders** for the three and six months ended May 31, 2015

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AGF MANAGEMENT LIMITED REPORTS SECOND QUARTER FINANCIAL RESULTS

- *Improved investment performance across key mandates; 47% of one-year AUM ranked above median*
- *Earnings per share of \$0.17*

Toronto | June 24, 2015

AGF Management Limited (AGF or the Company) today announced financial and operating results for the second quarter ended May 31, 2015, with investment performance improving across key mandates.

During the second quarter of 2015, revenue from continuing operations was \$117.1 million, compared to \$119.1 million for the three months ended May 31, 2014. Earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations was \$36.0 million, compared to \$38.1 million in the second quarter of 2014. For the three months ended May 31, 2015, net income from continuing operations was \$14.7 million compared to \$14.5 million for the three months ended May 31, 2014. Diluted earnings per share (EPS) from continuing operations were \$0.17, compared to \$0.16 for the three months ended February 28, 2015, and stable compared to \$0.17 for the three months ended May 31, 2014.

"We executed on our key priorities throughout the second quarter and saw continued improvement in our investment management performance and progress with our alternative asset management platform," said Blake C. Goldring, Chairman and Chief Executive Officer, AGF. "Our capital position remains strong and we are committed to investing in the growth of our business."

For the one-year period ended May 31, 2015, 47% of our AUM performed above median, compared to 34% for the one-year period February 28, 2015 and 48% for the one-year period at May 31, 2014. For the three-year period ended May 31, 2015, 45% of AUM performed above median, compared to 51% for the three-year period February 28, 2015 and a significant improvement from 16% for the three-year period ended May 31, 2014.

"These results reflect the ongoing work we have been doing to review the investment processes and risk parameters across all our mandates to help improve the consistency of performance and provide predictable outcomes that better meet investor expectations," said Kevin McCreadie, President and Chief Investment Officer.

Total assets under management (AUM) were \$36.0 billion as at May 31, 2015, compared to \$35.9 billion as at May 31, 2014. Total retail fund AUM was \$19.4 billion as at May 31, 2015, compared to \$19.7 billion in the second quarter of 2014. The trend of lower retail outflows continued into the second quarter of 2015 with 28 consecutive months of improvements. Institutional and sub-advisory AUM were \$11.7 billion as at May 31, 2015, compared to \$12.0 billion as at May 31, 2014. High-net-worth AUM increased to \$4.6 billion, compared to \$4.2 billion for the corresponding period in 2014. Alternative asset management platform AUM was \$0.3 billion as at May 31, 2015.

Dividends paid, including dividends reinvested, on Class A Voting common shares and Class B Non-Voting shares were \$6.6 million in the second quarter of 2015. Under the normal course issuer bid, 191,000 Class B Non-Voting shares were repurchased for a total consideration of \$1.4 million at an average price of \$7.33 per share. For the three months ended May 31, 2015, AGF declared an eight cent per share dividend on Class A Voting common shares and Class B Non-Voting shares, payable July 17, 2015 to shareholders on record as at July 9, 2015.

#### **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This Management's Discussion and Analysis (MD&A) includes forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as 'expects,' 'anticipates,' 'intends,' 'plans,' 'believes' or negative versions thereof and similar expressions, or future or conditional verbs such as 'may,' 'will,' 'should,' 'would' and 'could.' In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action on our part, is also a forward-looking statement. Forward-looking statements are based on certain factors and assumptions, including expected growth, results of operations, business prospects, business performance and opportunities. While we consider these factors and assumptions to be reasonable based on information currently available, they may prove to be incorrect. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about our operations, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by us due to, but not limited to, important risk factors such as level of assets under our management, volume of sales and redemptions of our investment products, performance of our investment funds and of our investment managers and advisors, 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 2014 Annual MD&A.

## Dear fellow shareholders,

The equity markets softened during the second quarter of 2015. In the U.S., the economy grew at a slower rate than expected, leading to a delay in the expected timing of an interest rate hike by the Federal Reserve. Canadian equities underperformed U.S. equities during the second quarter as a result of being weighed down by materials companies, particularly in the resource sector. Emerging markets modestly outperformed developed markets during the period. China's stock markets continued their meteoric rise, despite slowing economic growth. European equities continued to outperform against Canadian equities as the European Central Bank expanded its asset purchase program in March, which is expected to continue until late 2016.

During the quarter, AGF's total assets under management (AUM) increased to \$36.0 billion as at May 31, 2015, compared to \$35.9 billion as at May 31, 2014, reflecting an increase in our high-net worth AUM and our alternatives platform. Our number one priority is improving investment performance and our efforts are garnering results. As at May 31, 2015, 47% of our ranked AUM for the one-year period was above median, compared to 34% for the one-year period February 28, 2015 and 48% for the one-year period at May 31, 2014. On a three year basis, 45% of our ranked AUM performed above median, compared to 51% for the three-year period February 28, 2015 and a significant improvement from 16% for the three-year period ended May 31, 2014.

We announced several changes that support our long-term objectives, strengthen our product line-up and meet the needs of our advisors and their clients. To support our advisors with the upcoming impact of mutual fund disclosure, known as CRM2, we reduced management fees on select fee based funds and expanded our investment solutions offered under AGF's Gold Label product. We continue to expand our presence on social media to increase brand awareness. Recently, our website was recognized as a top website for financial advisors by Kasina, a New-York based consulting firm that provides consulting and research services to the asset management and insurance industries.

AGF's objectives for long-term growth are being supported by our alternatives platform. In addition to an existing fund that structures financing into the midstream energy sector, we will also launch a fund by year-end that invests directly into essential core infrastructure. Fundraising for this fund is progressing very well and continues to generate strong interest among institutional investors. The deal flow across our targeted sectors – power, utilities, civil and social infrastructure – demonstrate significant opportunity in this area.

We announced the appointment of Kathleen Camilli, the founder and Principal of Camilli Economics, LLC. as a member of AGF's Board of Directors. Kathleen's background in financial markets will bring great value to our Board and to AGF's executive management team.

We celebrated some notable anniversaries this quarter with two of our most senior portfolio managers marking milestones at AGF. Stephen Way celebrated 20 years managing AGF Global Equity Class, one of only a handful of managers globally who have reached such a long tenure. Tony Genua marked 10 years managing AGF American Growth Class, our first mutual fund launched in 1957 and the firm's namesake. These milestones speak to the consistency and longevity of our investment management team.

Finally, I would like to address our share price. While our decision to reallocate capital in December resulted in pressure on the share price, I believe the investments we have made in the Company have created a stronger AGF than a year ago. We remain a global independent firm; we appointed Kevin McCreadie as President and CIO; we launched an alternatives investment platform; and we continue to invest heavily in our brand awareness, our investment teams and our advisors. We are beginning to see the results of these investments. I believe our shareholders will be rewarded over time as we continue to execute on our priorities.

In closing, I would like to express my sincere thanks to all of our stakeholders for their continued support and confidence. We remain focused on our strategic priorities and the growth of our business throughout 2015 and beyond.

Sincerely,



**Blake C. Goldring, M.S.M., CFA**  
**Chairman and Chief Executive Officer**  
**June 24, 2015**

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

This Management's Discussion and Analysis (MD&A) is as of June 23, 2015, and presents an analysis of the financial condition of AGF and its subsidiaries for the three- and six-month periods ended May 31, 2015, compared to the three- and six-month periods ended May 31, 2014. The MD&A should be read in conjunction with our unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended May 31, 2015 and our 2014 Annual Report. The financial statements for the three and six months ended May 31, 2015, 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 2014 Annual MD&A: 'Intercompany and Related Party Transactions' and 'Government Regulations.' Refer to page 19 of this MD&A for changes related to risk factors and management of risk and contractual obligations.

### Our Business

AGF Management Limited (AGF or the Company), with \$36.0 billion in assets under management (AUM) as at May 31, 2015, is one of the largest independent Canadian-based investment management firms, with operations and investments in Canada, the United States, the United Kingdom, Ireland and Asia.

The origin of our Company dates back to 1957 with the introduction of the American Growth Fund, the first mutual fund available to Canadians seeking to invest in the United States. As of May 31, 2015, our products and services include a diverse lineup of investment solutions for retail, institutional and high-net-worth clients. Our multi-disciplined investment management teams have expertise across the balanced, fixed income, equity and specialty asset categories and are located in Toronto, London (Ontario), Dublin and Singapore.

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

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

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

We hold a 50.0% interest in InstarAGF Inc. (InstarAGF), a joint venture with Instar Group Inc. (Instar), to develop an alternative asset management platform offering new alternative investment products to support our retail, institutional and high-net-worth channels. InstarAGF holds a 37.0% interest in Stream Asset Financial Management LP (SAFMLP), manager of a midstream oil and gas infrastructure fund. All income earned through the interest in SAFMLP is allocated to AGF. In addition, InstarAGF expects to achieve first close of its essential infrastructure fund with external investors in the latter half of 2015. AGF is a cornerstone investor in this fund, with \$103.4 million invested as at May 31, 2015. Upon close of the fund, the Company will receive a return of its capital in excess of its proportionate participation. The fund will invest in utilities, civil, social and power infrastructure assets, including renewable energy.

We hold a 32.0% interest in Smith & Williamson Holdings Limited (S&WHL), a leading independent private client investment management, financial advisory and accounting group based in the UK. S&WHL is one of the top 10 largest firms of accountants in the UK and its investment management business has over £16.5 billion of funds under management and advice as at May 31, 2015.

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

## Our Strategy

AGF is a global firm focused exclusively on investment management, with investment research capabilities and institutional sales offices in Canada and abroad. The Company believes that superior investment performance and product innovation are key to its success. It also believes strongly in diversification, both in terms of investment styles and product solutions offered to clients, and in the client segments in which it operates.

Measuring long-term shareholder growth, we look to the following KPIs:

- AUM growth
- Revenue growth driven by new sales, investment performance and client retention
- Earnings before interest, taxes, depreciation and amortization (EBITDA) growth
- Pre-tax margins

Improvement in these measures is expected to result in improved cash flows as well as improved return on equity. We believe in returning value to our shareholders through share buybacks, dividend payments and reinvesting in our business.

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

## Our Priorities and Progress

AGF is committed to our mission of 'Helping Investors Succeed.' Our three key priorities are:

- Improving our investment performance
- Offering our advisors and clients innovative product solutions
- Achieving international expansion and organic growth

### Improving Investment Performance

We are focused on improving our investment performance. We are supporting our investment platforms and ensuring we have the requisite investment management talent to achieve our stated goal. During the past 12 months, as part of an overall review of our investment management function, we have identified and acted upon a number of initiatives with the goal to improve investment performance. This included a review of our investment management teams to identify areas where additional talent and support were required and we are adding resources to enhance those teams. In addition, we have made significant enhancements in our back office processes, including the implementation of a new risk analytic system and the conversion to a new trade order management system. For the six month period ended May 31, 2015, 49% of ranked AUM performed above median, compared to 42% for the six month period ended February 28, 2015 while for the one-year period ended May 31, 2015, 47% of ranked AUM performed above median, compared to 34% for the one-year period ended February 28, 2015.

Subsequent to May 31, 2015, we announced that Highstreet will assume the portfolio management of the AGF Dividend Income Fund. Highstreet will use its expertise in managing dividend income mandates they have been developing for high-net-worth investors since December 2012.

### Offering Our Advisors and Clients Innovative Product Solutions

Our strategy is to provide our advisors and clients a product platform that offers innovative solutions around specific needs, resulting in organic AUM growth.

- During the past three years, we have addressed investor needs related to rising rates and market volatility with the launch of several funds, including AGF U.S. AlphaSector Class, AGF Floating Rate Income Fund and AGF Focus Funds.
- During the second quarter of 2015, in response to the continuing demand for fee-based products, AGF announced the reduction of management fees on select funds offering a fee-based series (Series F) to help advisors that wish to transition to a fee-based business model. In addition, we announced an expansion of the number of funds offered under AGF's Gold Label offering. AGF Gold Label provides affluent investors with access to reduced pricing based on the amount they invest as well as the opportunity to reduce pricing further through household and account aggregation.
- We intend to develop products that leverage our capability in the alternative asset categories.

- We are actively promoting the AGF brand, ensuring brand recognition throughout the market. During the past two years, we have made a significant investment in our brand. Based on the results of a recent Credo brand perception survey completed by over 1,000 advisors, AGF's brand recognition and perception showed the greatest improvement amongst all the firms over the past year.

### **Achieving International Expansion and Organic Growth**

Our strategy is to leverage our world-class global equity capabilities and distribute our products through structures and platforms that work within their local markets. To date, we have made the following advancements:

- Through InstarAGF we have launched an alternative asset management platform that has \$315.0 million of fee-bearing AUM as at May 31, 2015 (2014 – nil). AGF has committed a total of \$150.0 million to funds and investments associated with the alternative asset management platform. This includes a \$50.0 million commitment to Stream Asset Financial LP (Stream), a midstream oil and gas infrastructure fund with equity commitments of approximately \$210.0 million. As at May 31, 2015, AGF had invested \$28.4 million in Stream, with \$21.6 million remaining committed capital to be invested in the Stream fund.
- On January 27, 2015, InstarAGF announced the acquisition of the Billy Bishop Toronto City Airport passenger terminal by Nieuport Aviation Infrastructure Partners GP, a consortium of Canadian and international investors led by InstarAGF. AGF has committed and invested \$103.4 million related to this investment, which will be a cornerstone asset for the essential infrastructure fund. The fund is expected to achieve its first closing with external investors in the latter half of 2015, at which point the Company will receive a return of its capital in excess of its proportionate participation.

### **Transition of Transfer Agency Business**

- Since 2005, AGF has outsourced its fund administration function, including client servicing, to Citigroup Fund Services Canada Inc. (CFSC). CFSC's decision to exit the fund administration business has provided AGF the opportunity to repatriate the transfer agency business and transition its fund accounting and custody functions to another third party service provider. During the quarter, AGF entered into a transition agreement with CFSC. The transition will encompass the transfer of the revenue and expenses associated with the provision of the transfer agency operations on behalf of the AGF managed mutual funds and investment pools. The transition of the business, which will include the transfer of approximately 185 employees from CFSC to AGF, is expected to be completed late in 2015. AGF will not compensate CFSC for the business but will invest approximately \$6.0 million of capital for leaseholds, facilities and technology. The transition of our custody and fund accounting functions from CFSC to another third party provider is expected to be completed in the third and fourth quarter respectively. The transfer agency business is expected to be managed on a profitable basis, while lowering the overall costs to the funds. By insourcing our client service function, AGF can better align its client servicing with the sales and marketing function, to ensure continued enhancement to the client service and experience.

### **Summary of Key Financial and Operational Results for the Second Quarter of 2015:**

- Total AUM was \$36.0 billion at May 31, 2015, as compared to \$35.9 billion at May 31, 2014.
- Retail AUM was \$19.4 billion, as compared to \$19.7 billion at May 31, 2014.
- Retail fund net redemptions improved 19.9% to \$0.4 billion for the three months ended May 31, 2015, compared to net redemptions of \$0.5 billion for the three months ended May 31, 2014.
- Institutional AUM was \$11.7 billion, compared to \$12.0 billion at May 31, 2014.
- High-net-worth AUM increased 8.6% to \$4.6 billion, compared to \$4.2 billion at May 31, 2014.
- For the three-year period ended May 31, 2015, 45% of ranked AUM performed above median, compared to 16% at May 31, 2014.
- Subsequent to May 31, 2015, we announced that Highstreet will assume the portfolio management of the AGF Dividend Income Fund. Highstreet will use its expertise in managing dividend income mandates they have been developing for high-net-worth investors since December 2012.
- We delivered value directly to our shareholders through dividend payments. During the second quarter of 2015, we paid dividends of \$0.08 per share (2014 – \$0.27 per share). Dividends paid, including dividends reinvested, on Class A Voting common shares and Class B Non-Voting shares were \$6.6 million in the second quarter of 2015, compared to \$23.2 million in the second quarter of 2014. Under the normal course issuer bid, 191,000 Class B Non-Voting shares were repurchased for a total consideration of \$1.4 million at an average price of \$7.33 per share.

- Revenue from continuing operations was \$117.1 million, compared to \$119.1 million in the same period of 2014, reflecting lower average AUM levels and overall reduction in the fee revenue rate.
- EBITDA from continuing operations was \$36.0 million in the second quarter of 2015, compared to \$38.1 million in the same period of 2014. EBITDA margin was 30.7%, compared to 32.0% in the second quarter of 2014.
- Diluted earnings per share (EPS) from continuing operations for the three months ended May 31, 2015 was \$0.17, compared to \$0.17 in 2014.
- Our website was recognized as one of the best by Kasina, a consulting firm that works with asset managers, for our efforts to educate and guide financial advisors through regulatory changes.

## Assets Under Management

The following table illustrates the composition of the changes in total AUM during the three and six months ended May 31, 2015 and 2014:

(in millions of Canadian dollars)	Three months ended May 31,		
	2015	2014	% change
Retail fund AUM (including retail pooled funds), beginning of period	\$ 19,955	\$ 19,995	(0.2%)
Gross sales	475	471	0.8%
Redemptions	(881)	(978)	(9.9%)
Net redemptions	(406)	(507)	(19.9%)
Market appreciation (depreciation) of fund portfolios	(194)	235	n/m
Retail fund AUM (including retail pooled funds), end of period	\$ 19,355	\$ 19,723	(1.9%)
Average daily retail fund AUM for the period	\$ 19,442	\$ 19,893	(2.3%)
Institutional and sub-advisory accounts AUM, beginning of period	\$ 11,795	\$ 12,054	(2.1%)
Net change in institutional and sub-advisory accounts, including market performance	(46)	(104)	(55.8%)
Institutional and sub-advisory accounts AUM, end of period	\$ 11,749	\$ 11,950	(1.7%)
High-net-worth AUM	\$ 4,592	\$ 4,227	8.6%
AUM, end of period	\$ 35,696	\$ 35,900	(0.6%)
Alternative asset management platform AUM <sup>1</sup>	\$ 315	\$ –	n/m
Total AUM, including alternative asset management platform, end of period	\$ 36,011	\$ 35,900	0.3%

<sup>1</sup> Represents fee-earning committed capital from AGF and external investors held through joint ventures. AGF's portion of this commitment is \$150.0 million, of which \$131.8 million has been funded as at May 31, 2015. InstarAGF holds a 37.0% interest in the manager of the Stream fund.



Management's Discussion and Analysis  
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(in millions of Canadian dollars)	Six months ended May 31,		
	2015	2014	% change
Retail fund AUM (including retail pooled funds), beginning of period	\$ 19,109	\$ 19,591	(2.5%)
Gross sales <sup>1</sup>	1,078	1,024	5.3%
Redemptions <sup>1</sup>	(1,974)	(2,135)	(7.5%)
Net redemptions	(896)	(1,111)	(19.4%)
Market appreciation of fund portfolios	1,142	1,243	(8.1%)
Retail fund AUM (including retail pooled funds), end of period	\$ 19,355	\$ 19,723	(1.9%)
Average daily retail fund AUM for the period	\$ 19,290	\$ 19,763	(2.4%)
Institutional and sub-advisory accounts AUM, beginning of period	\$ 11,342	\$ 10,877	4.3%
Net change in institutional and sub-advisory accounts, including market performance	407	1,073	(62.1%)
Institutional and sub-advisory accounts AUM, end of period	\$ 11,749	\$ 11,950	(1.7%)
High-net-w orth AUM	\$ 4,592	\$ 4,227	8.6%
AUM, end of period	\$ 35,696	\$ 35,900	(0.6%)
Alternative asset management platform AUM <sup>2</sup>	\$ 315	\$ –	n/m
Total AUM, including alternative asset management platform, end of period	\$ 36,011	\$ 35,900	0.3%

<sup>1</sup> Gross sales and redemptions include rebalancing of AGF Concert Series of \$76.9 million (2014 – \$12.3 million).

<sup>2</sup> Represents fee-earning committed capital from AGF and external investors held through joint ventures. AGF's portion of this commitment is \$150.0 million, of which \$131.8 million has been funded as at May 31, 2015. InstarAGF holds a 37.0% interest in the manager of the Stream 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 May 31, 2015, AGF had a net pipeline of \$12.0 million in sales. Commitments are not necessarily contractual obligations. Actual amounts funded or redeemed may vary.

During the quarter, we were notified of two mandate wins from strategic partners in addition to one mandate loss. As a result, we expect a reduction in our sub-advisory AUM of approximately \$600.0 million, and an annualized revenue reduction of approximately \$1.0 million.

## Consolidated Operating Results

The table below summarizes our consolidated operating results for the three and six months ended May 31, 2015 and 2014:

(\$ millions, except per share data)	Three months ended May 31,			Six months ended May 31,		
	2015	2014	% change	2015	2014	% change
<b>Income</b>						
Management and advisory fees	\$ 107.7	\$ 110.1	(2.2%)	\$ 210.2	\$ 218.4	(3.8%)
Deferred sales charges	2.4	3.4	(29.4%)	5.0	7.3	(31.5%)
Share of profit of associates and joint ventures	4.3	4.0	7.5%	8.2	6.3	30.2%
Fair value adjustments and other income	2.7	1.6	68.7%	5.4	3.9	38.5%
	117.1	119.1	(1.7%)	228.8	235.9	(3.0%)
<b>Expenses</b>						
Selling, general and administrative	46.6	46.8	(0.4%)	91.3	87.1	4.8%
Trailing commissions	33.4	32.7	2.1%	64.8	63.9	1.4%
Investment advisory fees	1.1	1.5	(26.7%)	2.8	3.0	(6.7%)
	81.1	81.0	0.1%	158.9	154.0	3.2%
<b>EBITDA from continuing operations<sup>1</sup></b>	36.0	38.1	(5.5%)	69.9	81.9	(14.7%)
Amortization, derecognition and depreciation	13.7	15.5	(11.6%)	26.7	33.2	(19.6%)
Interest expense	2.7	3.1	(12.9%)	5.6	6.0	(6.7%)
Income before taxes	19.6	19.5	0.5%	37.6	42.7	(11.9%)
Income taxes	4.9	5.0	(2.0%)	9.4	11.1	(15.3%)
Net income from continuing operations, net of tax	14.7	14.5	1.4%	28.2	31.6	(10.8%)
Net income from discontinued operations, net of tax	–	–	n/m	–	2.8	n/m
Net income for the period	\$ 14.7	\$ 14.5	1.4%	\$ 28.2	\$ 34.5	(18.3%)
<b>Diluted earnings per share</b>						
From continuing operations	\$ 0.17	\$ 0.17	–	\$ 0.33	\$ 0.37	(10.8%)
From discontinued operations	–	–	n/m	–	0.03	n/m
Diluted earnings per share	\$ 0.17	\$ 0.17	–	\$ 0.33	\$ 0.40	(17.5%)

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

## Revenue

For the three and six months ended May 31, 2015, revenue decreased by 1.7% and 3.0% 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. Lower average daily retail fund AUM and a decline in institutional and sub-advisory accounts AUM, combined with a reduction in higher fee-earning investment assets offset by an increase in lower fee-earning assets contributed to a decrease of 2.2% and 3.8% in management and advisory fees revenue compared to the three and six months ended May 31, 2014.

### Deferred Sales Charges (DSC)

We receive deferred sales charges upon redemption of securities sold on the contingent DSC or low-load commission basis for which we finance the selling commissions paid to the dealer. The DSC ranges from 1.5% to 5.5%, depending on the commission option of the original subscription price of the funds purchased if the funds are redeemed within the first two years, and declines to zero after three or seven years. DSC revenue fluctuates based on the level of redemptions, the age of the assets being redeemed and the proportion of redemptions composed of back-end assets. DSC revenues decreased by 29.4% and 31.5% for the three and six months ended May 31, 2015 as compared to 2014, reflecting lower redemption levels and redemption of a larger proportion of older, lower-yielding DSC assets.

### Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures increased to \$4.3 million and \$8.2 million for the three and six months ended May 31, 2015, respectively, compared to \$4.0 million and \$6.3 million during the same period in 2014, reflecting the growth in S&WHL's business, and includes earnings from our joint venture with InstarAGF. For additional information see Note 5 of the condensed consolidated interim financial statements. A breakdown is as follows:

(\$ millions)	Three months ended May 31,	
	2015	2014
Share of profit of S&WHL	\$ 4.2	\$ 3.8
Share of profit of joint ventures (SAFMLP)	0.1	0.2
	\$ 4.3	\$ 4.0

  

(\$ millions)	Six months ended May 31,	
	2015	2014
Share of profit of S&WHL	\$ 7.9	\$ 6.3
Share of profit of joint ventures (SAFMLP)	0.3	–
	\$ 8.2	\$ 6.3

### Fair Value Adjustments and Other Income

The following table illustrates the fair value adjustments and other income for the three and six months ended May 31, 2015 and 2014:

(\$ millions)	Three months ended May 31,	
	2015	2014
Fair value adjustment and distributions from alternative asset management platform	\$ 2.3	\$ 0.6
Interest income	0.1	0.9
Other	0.3	0.1
	\$ 2.7	\$ 1.6

  

(\$ millions)	Six months ended May 31,	
	2015	2014
Fair value adjustment related to investment in AGF mutual funds	\$ 0.9	\$ 0.2
Fair value adjustment related to acquisition consideration payable	–	0.4
Fair value adjustment and distributions from alternative asset management platform	3.6	0.6
Interest income	0.8	2.3
Other	0.1	0.4
	\$ 5.4	\$ 3.9

During the three and six months ended May 31, 2015, we recorded \$2.3 million and \$3.6 million (2014 – \$0.6 million and \$0.6 million) as fair value adjustment and income distributions related to the investments in our alternative asset management platform. This consisted of distributions of \$0.6 million and \$1.8 million (2014 – nil) related to our participation in Stream, net of return of capital, and \$1.7 million and \$1.8 million (2014 – nil) related to the mark to market adjustment related to our participation in the essential infrastructure fund for the three and six months ended May 31, 2015.

## Expenses

For the three and six months ended May 31, 2015, expenses increased 0.1% and 3.2% as compared to 2014. Changes in specific categories are described in the discussion that follows:

### Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased by \$0.2 million for the three months ended May 31, 2015, and increased \$4.2 million for the six months ended May 31, 2015, compared to the same period in 2014. A breakdown of the movement in SG&A is as follows:

(in millions of Canadian dollars)	Three months ended May 31, 2015	Six months ended May 31, 2015
Decrease in salaries and benefits expenses	\$ (1.5)	\$ (0.8)
Increase in stock-based compensation expenses	—	3.1
Decrease in fund absorption expenses and other fund costs	(1.4)	(0.8)
Increase in other expenses	2.7	2.7
	\$ (0.2)	\$ 4.2

The following explains expense changes in the three and six months ended May 31, 2015, compared to the same period in the prior year:

- Salaries and benefits expenses decreased \$1.5 million and \$0.8 million for the three and six months ended May 31, 2015, compared to the prior year. The decrease in expenses reflects lower salaries and performance-based compensation.
- Stock-based compensation increased \$3.1 million for the six months ended May 31, 2015, compared to the same period in 2014. On February 11, 2014, AGF amended its plan agreements to effectively hedge the expense related to Restricted Share Units. The related liability up to that date was marked to market, resulting in an expense recovery in the first quarter of 2014. For additional information, refer to Note 3.14 of AGF's 2014 Annual Consolidated Financial Statements.
- Absorption and other fund costs expenses decreased \$1.4 million and \$0.8 million for the three and six months ended May 31, 2015, as a result of lower absorption and other fund-related costs.
- Other expenses increased \$2.7 million and \$2.7 million for the three and six months ended May 31, 2015, due to higher sales and marketing and back office expenses. In addition, other expenses for the three months ended May 31, 2014 included one-time tax recoveries of \$1.4 million.

### 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% and 0.67% for the three and six months ended May 31, 2015, compared to 0.66% and 0.65% in the same period of 2014, reflecting an increase in rates associated with mature assets and a change in the mix of AUM.

### Investment Advisory Fees

External investment advisory fees decreased \$0.4 million and \$0.2 million for the three and six months ended May 31, 2015, as compared to the same period in 2014, reflecting lower AUM levels.

### EBITDA, EBITDA Margin and EBITDA per Share

As a result of the factors explained above, EBITDA from continuing operations was \$36.0 million and \$69.9 million for the three and six months ended May 31, 2015, a decrease from \$38.1 million and \$81.9 million for the same period of 2014. EBITDA margin was 30.7% and 30.6% for the three and six months ended May 31, 2015, compared to 32.0% and 34.7% in the corresponding periods in 2014. Diluted EBITDA per share from continuing operations for the three and six months ended May 31, 2015 was \$0.42 and \$0.82, compared to \$0.44 and \$0.95 for the three and six months ended May 31, 2014.

### 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 and derecognition expense related to deferred selling commissions was \$10.3 million and \$20.7 million for the three and six months ended May 31, 2015, compared to \$12.2 million and \$24.8 million for the same periods of 2014. During the three and six months ended May 31, 2015, we paid \$10.8 million and \$20.4 million in selling commissions, compared to \$12.1 million and \$22.0 million in the same period of 2014, reflecting stable sales. As at May 31, 2015, the unamortized balance of deferred selling commissions financed was \$104.5 million (November 30, 2014 – \$104.8 million).

Customer contracts amortization and derecognition increased \$0.3 million for the three months ended May 31, 2015 and remained unchanged for the six months ended May 31, 2015, as a result of a lower carrying value. Customer contracts are immediately expensed upon redemption of the AUM.

Other intangibles amortization and derecognition decreased \$0.2 million and \$1.8 million for the three and six months ended May 31, 2015.

Interest expense decreased as a result of lower average debt levels.

### **Income Tax Expense**

Income tax expense related to continuing operations for the three and six months ended May 31, 2015 was \$4.9 million and \$9.4 million, compared to \$5.0 million and \$11.1 million in the corresponding periods in 2014. The estimated effective tax rate for the six months ended May 31, 2015 was 25.0% (2014 – 26.0%).

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.

In November 2013, the Company received a notice of reassessment (NOR) from the CRA relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary, which would increase the Company's taxes payable from its original tax filings by \$10.0 million, \$10.5 million and \$15.4 million (before the application of interest and penalties of \$21.6 million) for its 2005, 2006 and 2007 fiscal years, respectively. In November 2014, the Company also received a NOR from the CRA relating to the same matter, which would increase the Company's taxes payable from its original tax filings by \$13.6 million (before the application of any interest and penalties of \$6.3 million) for its 2008 fiscal year.

The Company strongly disagrees with the CRA's position and filed an objection to the NOR for 2005, 2006 and 2007 in February 2014 and also objected to the NOR for 2008 in February 2015. In connection with the filing of an objection to the NOR for the 2008 fiscal year, the Company was required to pay, and has paid, approximately \$14.5 million (including interest and penalties) during the six months ended May 31, 2015, even though the ultimate outcome may differ from this amount. The Company is not expected to make any further significant payments with respect to the 2005-2008 NOR until the resolution of this matter. Including the payments made during the six months ended May 31, 2015, the Company has paid approximately \$54.0 million with respect to the 2005-2008 NOR.

In consultation with its external advisors, the Company believes that its tax filing positions continue to be reasonable based on its transfer pricing methodology and the Company is contesting the CRA's position and any related transfer pricing penalty. 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 six months ended May 31, 2015, the Company has recorded a tax provision of \$0.8 million (2014 – \$1.0 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 of the final payment to be made on the ultimate resolution of this matter and includes any related estimated interest and penalties for the 2005 to 2015 fiscal years. 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 valuing its income tax assets and liabilities.

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. While it is uncertain whether relief from double taxation will be granted, the Company's provision, which reflects its best estimate of the final payment to be made on the ultimate resolution of this matter, includes an expected recovery of approximately \$10.5 million for the tax years 2005 through 2008 that are not covered in the Bilateral Advance Pricing Arrangement (BAPA) as described below.

The Company has been accepted by the CRA into a BAPA between Canada and the relevant tax authorities to establish the appropriate transfer pricing methodologies for the tax years 2009 through 2016. Under a BAPA, the taxpayer can avoid potential double taxation on transactions covered by the BAPA according to the provisions of the income tax treaty between Canada and the foreign country.

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 Company strongly disagrees with the CRA's position and has responded to the proposal letter accordingly. The Company has not yet received a notice of reassessment on this issue and intends to object to any reassessment, if received. It is estimated that the proposal would increase the Company's taxes payable by \$23.5 million (before the application of interest and penalties of \$9.5 million accrued as at May 31, 2015) for its 2007 through 2012 fiscal years. In consultation with its external advisors, the Company continues to believe that its tax position is probable of being sustained and, as a result, has not recorded any tax provision related to this matter. However, the Company cannot predict with certainty the outcome of any audit undertaken by taxation authorities and the final result may vary compared to the estimates and assumptions used by management in determining the Company's consolidated income tax provision and in valuing its income tax assets and liabilities. Depending on the ultimate outcome of any such audit or reassessment, there may be material impact on the Company's financial position, results of operations and cash flows. If a tax reassessment is received from the CRA, the Company would be required to submit an advance deposit on the amount reassessed even where the ultimate outcome is expected to differ. The Company believes it is likely that the CRA will review the FAPI rules applicable to subsequent years and may also reassess its tax returns for subsequent years on a similar basis.

The Company has also been notified that the CRA is also reviewing the appropriateness of certain deductions claimed in various taxation years. The amount of such deductions under review is up to \$32.1 million and any resulting taxes payable may also be subject to interest and penalties. Management continues to believe that the deductions were reasonable and that its position would be sustained if reassessed. The amounts of the losses related to these claims or potential claims, if any, cannot be determined at this time.

## Net Income

The impact of the above revenue and expense items resulted in a net income from continuing operations of \$14.7 million and \$28.2 million for the three and six months ended May 31, 2015, as compared to net income from continuing operations of \$14.5 million and \$31.6 million in the corresponding periods in 2014.

## Earnings per Share

Diluted earnings per share from continuing operations were \$0.17 and \$0.33 for the three and six months ended May 31, 2015, as compared to earnings of \$0.17 and \$0.37 in the corresponding periods of 2014.

## Discontinued Operations

On August 1, 2012, the Company completed its sale of 100% of the shares of AGF Trust for cash consideration corresponding to the net book value of AGF Trust at closing of \$246.3 million. The agreement included a contingent consideration to a maximum of \$20.0 million over five years if the credit performance of AGF Trust's loan portfolio met certain thresholds. In May 2014, the Company finalized an early settlement of the contingent consideration receivable for \$10.0 million. The amount receivable was settled on June 4, 2014. During the three months ended February 28, 2014, the Company realized a gain on discontinued operations related to this settlement of \$3.9 million, or \$2.8 million after tax. In addition, the Company indemnified the purchaser of AGF Trust against unenforceable loans outstanding or committed as at the date of closing, which may be put back to the Company on a quarterly basis, subject to certain conditions. The put option will expire on October 31, 2017 and indemnifies only against errors in underwriting and not credit deterioration. The carrying value of the loans subject to indemnification was \$3.1 billion at the date of sale. The Company records a provision for indemnified loans when a loan is in default and the put option becomes probable of being exercised, which generally coincides with the receipt of notification by the purchaser that it intends to exercise the put. During the three and six months ended May 31, 2015, the Company recorded a provision of nil (2014 – nil).

## Liquidity and Capital Resources

As at May 31, 2015, the Company had total cash and cash equivalents of \$47.2 million. Free cash flow, as defined on page 17, generated from continuing operating activities was \$16.8 million and \$32.2 million for the three and six months ended May 31, 2015, compared to \$18.0 million and \$37.8 million in the prior year. During the three and six months ended May 31, 2015, we generated \$10.3 million in cash and used \$214.3 million in cash to fund the following:

- We invested \$5.0 million and \$115.3 million in the alternative asset management platform.
- We repurchased a total of 191,000 and 2,979,040 (2014 – nil and 1,762,200) shares for \$1.4 million and \$23.1 million (2014 – nil and \$22.1 million).
- We paid \$6.5 million and \$29.2 million in cash dividends, compared to \$22.6 million and \$45.2 million in 2014.

- We repaid \$40.0 million of long-term debt in the first quarter of 2015.
- We paid \$14.5 million to the CRA in relation to the NOR received in November 2014.

Total long-term debt outstanding at May 31, 2015 was \$268.6 million (November 30, 2014 – \$308.2 million). The Company, through its subsidiary AGF Investments Inc., has a four-year unsecured revolving credit facility with a maximum aggregate principal amount of \$400.0 million and includes an accordion feature providing for an additional \$100.0 million. As at May 31, 2015, \$124.9 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, finance selling commissions, satisfy regulatory and tax requirements, service debt repayment obligations, pay quarterly dividends, and fund any future share buybacks.

On January 26, 2015, the Company arranged a \$100.0 million bridge facility through a Canadian chartered bank to fund its alternative asset investment. The bridge facility was secured by the Company's term deposits held by the bank and was fully repaid on February 2, 2015.

On December 9, 2014, we announced our intention to reduce the quarterly dividend in fiscal 2015 to \$0.08 per share as part of our amended capital allocation strategy.

## 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 prepare and submit a three-year operating plan and budget to AGF's Finance Committee for approval prior to seeking Board approval. AGF's Finance Committee consists of the Chairman and CEO, the Vice-Chairman, Executive Vice-President and CFO, the Executive Vice-President and Chief Operating Officer, and 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

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B Non-Voting shares through the facilities of the Toronto Stock Exchange (TSX). AGF relies on an automatic purchase plan during the normal course issuer bid. The automatic purchase plan allows for purchases by AGF of its Class B Non-Voting shares during certain pre-determined black-out periods, subject to certain parameters. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its normal course issuer bid, the Class B Non-Voting shares may be repurchased from time to time at prevailing market prices or such other price as may be permitted by the TSX. AGF may purchase up to 6,707,999 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) between February 4, 2015 and February 3, 2016.

During the three months ended May 31, 2015, 191,000 Class B Non-Voting shares were repurchased for a total consideration of \$1.4 million at an average price of \$7.33 per share. During the six months ended May 31, 2015, 2,979,040 Class B Non-Voting shares were repurchased for a total consideration of \$23.1 million at an average price of \$7.75 per share.

During the three and six months ended May 31, 2015, 243,506 Class B Non-Voting shares were purchased for the employee benefit trust for a total consideration of \$1.9 million at an average price of \$7.80 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 revolving 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	2015 <sup>1</sup>		2014		2013		2012		2011	
Per share	\$	0.43	\$	1.08	\$	1.08	\$	1.08	\$	1.07

<sup>1</sup> Represents the total dividends paid in January 2015 and April 2015, and to be paid in July 2015.

We review our dividend distribution policy on a quarterly basis, taking into account our financial position, profitability, cash flow and other factors considered relevant by our Board of Directors. The quarterly dividend paid on April 17, 2015 was \$0.08 per share. On December 9, 2014 we announced a change in our capital allocation strategy that will result in retained capital being deployed to initiatives with greater potential to increase shareholder value. As part of this strategy, the Company announced an intention to adjust the quarterly dividend to \$0.08 per share on both the Class B Non-Voting shares and the Class A Voting common shares for the first quarter of 2015. This change in strategy will provide us with increased flexibility to execute our growth strategy and invest in the growth of the business, while being active in AGF's share buyback program.

## Outstanding Share Data

Set out below is our outstanding share data as at May 31, 2015 and 2014. For additional detail, see Note 9 and Note 13 of the Condensed Consolidated Interim Financial Statements.

	As at May 31,	
	2015	2014
Shares		
Class A Voting common shares	57,600	57,600
Class B Non-Voting shares	82,917,656	85,904,799
Stock Options		
Outstanding options	5,720,011	4,641,393
Exercisable options	2,399,227	2,462,774

## Key Performance Indicators, Additional IFRS and Non-IFRS Measures

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

### Revenue

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

We derive our revenue principally from a combination of:

- management and advisory fees based on AUM,
- DSC earned from investors when mutual fund securities sold on a DSC basis are redeemed,
- 32.0% equity interest in S&WHL,
- equity interest in InstarAGF
- long-term investments in the alternative asset management platform.

### EBITDA

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

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



### Free Cash Flow

Free cash flow from continuing operations represents cash available for distribution to our shareholders, share buybacks and general corporate purposes. We define free cash flow from continuing operations as cash flow from operations before net changes in non-cash balances related to operations less interest paid and adjusted to exclude prior years' cash taxes paid or refunded and include anticipated cash taxes to be paid or refunded related to the current year continuing operations. Free cash flow is a relevant measure in the investment management business since a substantial amount of cash is spent on upfront commission payments.

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Net cash provided by continuing operating activities	\$ 26.7	\$ 23.8	\$ 2.1	\$ (23.9)
Adjusted for:				
Net changes in non-cash working capital balances related to operations	(7.2)	(5.5)	16.2	25.8
Taxes paid related to transfer pricing audit	–	0.7	14.5	39.5
Interest paid	(2.6)	(3.0)	(5.2)	(6.0)
Prior years' cash taxes paid (refunded) and anticipated cash taxes to be refunded (paid) related to the current year continuing operations	(0.1)	2.0	4.6	2.4
Free cash flow	\$ 16.8	\$ 18.0	\$ 32.2	\$ 37.8

### EBITDA Margin

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
EBITDA	\$ 36.0	\$ 38.1	\$ 69.9	\$ 81.9
Divided by revenue	117.1	119.1	228.8	235.9
EBITDA margin	30.7%	32.0%	30.6%	34.7%

### Pre-tax Profit Margin

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

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Net income from continuing operations	\$ 14.7	\$ 14.5	\$ 28.2	\$ 31.6
Add: income taxes	4.9	5.0	9.4	11.1
Income before taxes	\$ 19.6	\$ 19.5	\$ 37.6	\$ 42.7
Divided by revenue	117.1	119.1	228.8	235.9
Pre-tax profit margin	16.7%	16.4%	16.4%	18.1%

### 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.

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Net income from continuing operations (annualized)	\$ 58.8	\$ 58.0	\$ 56.4	\$ 63.2
Divided by average shareholders' equity	910.3	954.1	921.3	957.7
Return on equity	6.5%	6.1%	6.1%	6.6%

### 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.

(\$ millions)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Long-term debt	\$ 268.6	\$ 308.1	\$ 268.6	\$ 308.1
Divided by EBITDA (annualized)	144.0	152.4	139.8	163.8
Long-term debt to EBITDA ratio	186.5%	202.2%	192.1%	188.1%

### 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 high-net-worth relationships. AUM will fluctuate in value as a result of investment performance, sales and redemptions. Mutual fund sales and AUM determine a significant portion of our expenses because we pay upfront commissions on gross sales and trailing commissions to financial advisors as well as investment advisory fees based on the value of AUM.

### Investment Performance

Investment performance, which represents market appreciation (depreciation) of fund portfolios and is shown net of management fees received, is a key driver of the level of AUM and is central to the value proposition that we offer advisors and unitholders. Growth in AUM resulting from investment performance increases the wealth of our unitholders, and, in turn, we benefit from higher revenues. Alternatively, poor investment performance will reduce our AUM levels and result in lower management fee revenues. Strong relative investment performance may also contribute to growth in gross sales or reduced levels of redemptions. Conversely, poor relative investment performance may result in lower gross sales and higher levels of redemptions. Refer to the 'Risk Factors and Management of Risk' section of our 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 high-net-worth businesses separately. We do not compute an average daily retail fund AUM figure for them.

## **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 2014 Annual MD&A in the section entitled 'Risk Factors and Management of Risk.' During the three months ended May 31, 2015, the Company has identified a change to the operational risk factor that may affect its business or the management of these risks.

### **Operational Risk**

Operational risk is related to the processes and systems that support AGF's business, including fund accounting and administration. During the quarter, the Company entered into an agreement with CFSC to transition the transfer agency business from CFSC to AGF. The transition will encompass the transfer of the revenue and expenses associated with the provision of the transfer agency operations on behalf of the AGF-managed mutual funds and investment pools. In addition, during the second half of 2015, AGF will transition its custody and fund accounting functions from CFSC to a third party service provider. Any delays or issues related to the transition of these functions could lead to operational and business disruption, as well as a potential negative financial impact.

### **Contractual Obligations**

During the quarter, AGF entered into an agreement with CFSC to transition our transfer agency function in house. The transition, which will include the transfer of approximately 185 employees from CFSC to AGF, is expected to be completed late in 2015. As part of this transition agreement, AGF 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 revenue commitment.

### **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 May 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Selected Quarterly Information

(in millions of Canadian dollars, except per share amounts) For the three-month period ended	May 31, 2015	Feb. 28, 2015	Nov. 30, 2014	Aug. 31, 2014
Revenue (continuing operations)	\$ 117.1	\$ 111.7	\$ 111.7	\$ 116.9
Free cash flow <sup>1</sup>	16.8	15.4	22.8	22.2
EBITDA (continuing operations) <sup>1</sup>	36.0	33.9	34.4	38.5
Pre-tax income (continuing operations)	19.6	18.1	16.7	19.6
Net income attributable to equity ow ners of the Company	14.7	13.6	12.6	14.8
Net income (continuing operations)	14.7	13.6	11.9	14.8
EBITDA per share (continuing operations)				
Basic	\$ 0.43	\$ 0.40	\$ 0.40	\$ 0.45
Diluted	\$ 0.42	\$ 0.40	\$ 0.40	\$ 0.45
Earnings per share attributable to equity ow ners of the Company				
Basic (continuing operations)	\$ 0.17	\$ 0.16	\$ 0.15	\$ 0.17
Diluted (continuing operations)	\$ 0.17	\$ 0.16	\$ 0.14	\$ 0.17
Basic	\$ 0.17	\$ 0.16	\$ 0.14	\$ 0.17
Diluted	\$ 0.17	\$ 0.16	\$ 0.13	\$ 0.17
Weighted average basic shares	84,489,294	84,644,212	85,812,669	85,950,736
Weighted average fully diluted shares	85,426,944	85,447,450	87,000,054	86,459,914
(in millions of Canadian dollars, except per share amounts) For the three-month period ended	May 31, 2014	Feb. 28, 2014	Nov. 30, 2013	Aug. 31, 2013
Revenue (continuing operations)	\$ 119.1	\$ 116.9	\$ 117.4	\$ 117.7
Free cash flow <sup>1</sup>	18.0	19.8	23.1	26.3
EBITDA (continuing operations) <sup>1</sup>	38.1	43.9	33.6	38.6
Pre-tax income (continuing operations)	19.5	23.2	9.7	14.1
Net income attributable to equity ow ners of the Company	14.5	19.9	7.1	10.1
Net income (continuing operations)	14.5	17.1	7.1	10.1
EBITDA per share (continuing operations)				
Basic	\$ 0.44	\$ 0.51	\$ 0.39	\$ 0.44
Diluted	\$ 0.44	\$ 0.51	\$ 0.38	\$ 0.44
Earnings per share attributable to equity ow ners of the Company				
Basic (continuing operations)	\$ 0.17	\$ 0.20	\$ 0.08	\$ 0.12
Diluted (continuing operations)	\$ 0.17	\$ 0.23	\$ 0.08	\$ 0.11
Basic	\$ 0.17	\$ 0.20	\$ 0.08	\$ 0.12
Diluted	\$ 0.17	\$ 0.23	\$ 0.08	\$ 0.11
Weighted average basic shares	86,009,993	86,188,463	87,145,604	87,411,167
Weighted average fully diluted shares	86,563,621	86,742,830	87,911,391	88,026,012

<sup>1</sup> As previously defined, see 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures' section.

## Additional Information

Additional information relating to the Company can be found in the Company's Consolidated Financial Statements and accompanying notes for the three and six months ended May 31, 2015, the Company's 2014 Annual Report, the Company's 2014 Annual Information Form (AIF) and other documents filed with applicable securities regulators in Canada and may be accessed at [www.sedar.com](http://www.sedar.com).

AGF Management Limited  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended May 31, 2015 and 2014



What are you doing after work?®

AGF Management Limited  
Consolidated Interim Statement of Financial Position

(unaudited) (in thousands of Canadian dollars)	Note	May 31, 2015	November 30, 2014
<b>Assets</b>			
Current Assets			
Cash and cash equivalents		\$ 47,199	\$ 261,498
Investments	4	25,779	23,832
Accounts receivable, prepaid expenses and other assets	5	44,230	42,227
		117,208	327,557
Investment in associate and joint ventures	5	103,959	91,948
Long-term investments	5	136,720	19,671
Management contracts	7	689,759	689,759
Customer contracts, net of accumulated amortization and derecognition	7	4,401	6,595
Goodwill	7	244,549	244,549
Other intangibles, net of accumulated amortization and derecognition	7	10,178	12,548
Deferred selling commissions, net of accumulated amortization and derecognition	7	104,485	104,773
Property, equipment and computer software, net of accumulated depreciation		9,161	9,353
Deferred income tax assets		3,787	4,503
Other assets		152	167
<b>Total assets</b>		<b>\$ 1,424,359</b>	<b>\$ 1,511,423</b>
<b>Liabilities</b>			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 51,669	\$ 65,961
Income tax liability	14, 19	3,569	20,702
Provision for Elements Advantage		1,502	2,045
Derivative financial instrument		2,009	1,596
		58,749	90,304
Long-term debt	8	268,553	308,199
Deferred income tax liabilities		175,910	175,472
Derivative financial instrument		550	1,032
Provision for Elements Advantage		1,090	1,419
Other long-term liabilities	13	6,608	5,222
<b>Total liabilities</b>		<b>511,460</b>	<b>581,648</b>
<b>Equity</b>			
Equity attributable to owners of the Company			
Capital stock	9	501,683	517,467
Contributed surplus	13	38,867	39,584
Retained earnings		354,922	361,628
Accumulated other comprehensive income	10	17,427	11,096
<b>Total equity</b>		<b>912,899</b>	<b>929,775</b>
<b>Total liabilities and equity</b>		<b>\$ 1,424,359</b>	<b>\$ 1,511,423</b>

(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	May 31, 2015	May 31, 2014
<b>Income</b>			
Management and advisory fees		\$ 107,683	\$ 110,142
Deferred sales charges		2,422	3,441
Share of profit of associate and joint ventures	5	4,320	3,959
Fair value adjustments and other income	11	2,626	1,524
<b>Total income</b>		<b>117,051</b>	<b>119,066</b>
<b>Expenses</b>			
Selling, general and administrative	12	46,587	46,757
Trailing commissions		33,446	32,687
Investment advisory fees		1,144	1,516
Amortization and derecognition of deferred selling commissions		10,296	12,152
Amortization and derecognition of customer contracts		1,433	1,093
Amortization and derecognition of other intangibles		1,192	1,359
Depreciation of property, equipment and computer software		777	896
Interest expense		2,617	3,019
		97,492	99,479
<b>Income before income taxes</b>		<b>19,559</b>	<b>19,587</b>
Income tax expense (benefit)			
Current	14	4,557	5,273
Deferred	14	333	(227)
		4,890	5,046
<b>Net income for the period</b>		<b>\$ 14,669</b>	<b>\$ 14,541</b>
<b>Earnings per share for the period</b>			
Basic earnings per share	15	\$ 0.17	\$ 0.17
Diluted earnings per share	15	\$ 0.17	\$ 0.17

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

AGF Management Limited  
Consolidated Interim Statement of Income

(unaudited)		Six months ended	
(in thousands of Canadian dollars, except per share data)	Note	May 31, 2015	May 31, 2014
<b>Income</b>			
Management and advisory fees		\$ 210,197	\$ 218,424
Deferred sales charges		5,020	7,304
Share of profit of associate and joint ventures	5	8,226	6,320
Fair value adjustments and other income	11	5,323	3,869
<b>Total income</b>		<b>228,766</b>	<b>235,917</b>
<b>Expenses</b>			
Selling, general and administrative	12	91,339	87,074
Trailing commissions		64,807	63,922
Investment advisory fees		2,750	2,982
Amortization and derecognition of deferred selling commissions		20,681	24,796
Amortization and derecognition of customer contracts		2,195	2,220
Amortization and derecognition of other intangibles		2,370	4,161
Depreciation of property, equipment and computer software		1,432	1,986
Interest expense		5,560	6,047
		191,134	193,188
<b>Income before income taxes</b>		<b>37,632</b>	<b>42,729</b>
Income tax expense (benefit)			
Current	14	8,768	13,673
Deferred	14	640	(2,564)
		9,408	11,109
Income from continuing operations, net of taxes		28,224	31,620
Income from discontinued operations, net of taxes	6	–	2,840
<b>Net income for the period</b>		<b>\$ 28,224</b>	<b>\$ 34,460</b>
<b>Earnings per share for the period</b>			
Basic earnings per share			
Continuing operations	15	\$ 0.34	\$ 0.37
Discontinued operations	15	–	0.03
		\$ 0.34	\$ 0.40
Diluted earnings per share			
Continuing operations	15	\$ 0.33	\$ 0.37
Discontinued operations	15	–	0.03
		\$ 0.33	\$ 0.40

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



AGF Management Limited  
Consolidated Interim Statement of Comprehensive Income

(unaudited) (in thousands of Canadian dollars)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
<b>Net income for the period</b>	\$ 14,669	\$ 14,541	\$ 28,224	\$ 34,460
<b>Other comprehensive income (loss), net of tax</b>				
<b>Cumulative translation adjustment</b>				
Foreign currency translation adjustments related to net investments in foreign operations	(1,372)	(1,841)	6,103	3,693
	(1,372)	(1,841)	6,103	3,693
<b>Net unrealized gains (losses) on investments</b>				
Unrealized gains (losses)	(107)	(28)	207	521
	(107)	(28)	207	521
<b>Net unrealized gains (losses) on cash flow hedge</b>				
Unrealized gains (losses)	107	(42)	(547)	(319)
Reclassification of realized losses to earnings	308	253	568	508
	415	211	21	189
Total other comprehensive income (loss), net of tax	\$ (1,064)	\$ (1,658)	\$ 6,331	\$ 4,403
<b>Comprehensive income</b>	\$ 13,605	\$ 12,883	\$ 34,555	\$ 38,863

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

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

AGF Management Limited  
Consolidated Interim Statement of Changes in Equity

(unaudited)						
(in thousands of Canadian dollars)	<b>Capital stock</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive income</b>	<b>Total equity</b>	
<b>Balance, December 1, 2013</b>	\$ 524,681	\$ 28,440	\$ 405,989	\$ 7,117	\$ 966,227	
Net income for the period	–	–	34,460	–	34,460	
Other comprehensive income (net of tax)	–	–	–	4,403	4,403	
Comprehensive income for the period	–	–	34,460	4,403	38,863	
Issued through dividend						
reinvestment plan	1,320	–	–	–	1,320	
Stock options	4,259	347	–	–	4,606	
AGF Class B Non-Voting shares shares repurchased for cancellation	(10,623)	–	(11,486)	–	(22,109)	
AGF Class B Non-Voting shares issued on acquisition of Acuity	1,941	–	–	–	1,941	
Dividends on AGF Class A Voting common shares and AGF Class B Non-Voting shares, including tax of \$0.6 million	–	–	(47,146)	–	(47,146)	
Equity-settled Restricted Share Units and Partner Points, net of tax	–	7,295	–	–	7,295	
Treasury stock	(1,819)	–	–	–	(1,819)	
<b>Balance, May 31, 2014</b>	\$ 519,759	\$ 36,082	\$ 381,817	\$ 11,520	\$ 949,178	
<b>Balance, December 1, 2014</b>	\$ 517,467	\$ 39,584	\$ 361,628	\$ 11,096	\$ 929,775	
Net income for the period	–	–	28,224	–	28,224	
Other comprehensive income (net of tax)	–	–	–	6,331	6,331	
Comprehensive income for the period	–	–	28,224	6,331	34,555	
Issued through dividend						
reinvestment plan	379	–	–	–	379	
Stock options	101	596	–	–	697	
AGF Class B Non-Voting shares repurchased for cancellation	(18,077)	–	(5,027)	–	(23,104)	
Dividends on AGF Class A Voting common shares and AGF Class B Non-Voting shares, including tax of \$0.3 million	–	–	(29,903)	–	(29,903)	
Equity-settled Restricted Share Units and Partner Points, net of tax	–	(1,313)	–	–	(1,313)	
Treasury stock	1,813	–	–	–	1,813	
<b>Balance, May 31, 2015</b>	\$ 501,683	\$ 38,867	\$ 354,922	\$ 17,427	\$ 912,899	

AGF Management Limited  
Consolidated Interim Statement of Cash Flow

(unaudited)		Six months ended	
(in thousands of Canadian dollars)	Note	May 31, 2015	May 31, 2014
<b>Operating Activities</b>			
Net income for the period		\$ 28,224	\$ 34,460
Adjustments for			
Net income from discontinued operations	6	–	(2,840)
Amortization, derecognition and depreciation		26,678	33,163
Interest expense		5,560	6,047
Income tax expense	14	9,408	11,109
Income taxes paid		(26,184)	(54,112)
Stock-based compensation	13	3,944	860
Share of profit of associate and joint venture	5	(8,226)	(6,320)
Distributions from associate	5	1,680	1,646
Deferred selling commissions paid		(20,394)	(21,988)
Other		(2,343)	(91)
		18,347	1,934
Net change in non-cash working capital balances related to operations			
Accounts receivable		(2,002)	11,919
Other assets		(602)	(1,074)
Accounts payable and accrued liabilities		(13,799)	(29,477)
Other liabilities		205	(7,156)
		(16,198)	(25,788)
Net cash provided by (used in) operating activities		2,149	(23,854)
<b>Financing Activities</b>			
Repurchase of Class B Non-Voting shares for cancellation	9	(23,104)	(22,109)
Issue of Class B Non-Voting shares	9	91	3,906
Purchase of treasury stock	9	(1,867)	(1,833)
Dividends paid	16	(29,238)	(45,190)
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		(5,236)	(6,012)
Net cash used in continuing financing activities		(99,354)	(71,238)
<b>Investing Activities</b>			
Acquisition of Acuity Funds Ltd. and Acuity Investment Management Inc.		–	(4,440)
Purchase of investment in joint venture	5	–	(1)
Purchase of long-term investments	5	(115,269)	(27,500)
Purchase of property, equipment and computer software, net of disposals		(1,240)	(326)
Purchase of short-term investments	4	(4,768)	(11,049)
Proceeds from sale of short-term investments	4	4,183	1,716
Net cash used in continuing investing activities		(117,094)	(41,600)
<b>Decrease in cash and cash equivalents during the period</b>		(214,299)	(136,692)
<b>Balance of cash and cash equivalents, beginning of period</b>		261,498	369,865
<b>Balance of cash and cash equivalents, end of period</b>		\$ 47,199	\$ 233,173

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

# Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended May 31, 2015 and 2014 (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 TD Bank Tower, 66 Wellington Street West, Toronto, Ontario.

The Company is an integrated, global wealth management corporation whose principal subsidiaries provide investment management for mutual funds, institutions and corporations, as well as high-net-worth clients. The Company conducts the management and distribution of mutual funds in Canada under the brand names AGF, Acuity, Elements and Harmony (collectively, AGF Investments). The Company also holds 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 interim financial statements were authorized for issue by the Board of Directors on June 23, 2015.

## 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, 2014, with the exception of the changes described below. The condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

## Note 3: Adoption of New and Revised Accounting Standards

The Company has adopted the following new and revised standards, along with all consequential amendments to other standards, effective December 1, 2014. These changes were adopted in accordance with the applicable transitional provisions of each new or revised standard.

Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

Amendments to IAS 36, 'Impairment of assets' on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generated units (CGUs) that had been included in IAS 36 by the issue of IFRS 13. The amendment did not have a significant effect on the Company's financial statements.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. There was no impact to the Company as a result of the adoption of the amended standard.

#### Note 4: Investments

The following table presents a breakdown of investments:

(in thousands of Canadian dollars)	May 31, 2015	November 30, 2014
Fair value through profit or loss		
AGF mutual funds and other	\$ 19,493	\$ 17,676
Equity securities	584	544
	20,077	18,220
Available for sale		
Equity securities and term deposits	5,393	5,304
Loans and receivables		
Canadian government debt – Federal	309	308
	\$ 25,779	\$ 23,832

During the three and six months ended May 31, 2015 and 2014, no impairment charges were required.

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

##### (a) Investment in Associate

The Company holds a 32.0% investment in S&WHL accounted for using the equity method. At May 31, 2015, the carrying value was \$103.3 million (November 30, 2014 – \$91.6 million). During the three and six months ended May 31, 2015, the Company recognized earnings of \$4.2 million and \$7.9 million (2014 – \$3.8 million and \$6.3 million) and received \$1.7 million and \$1.7 million (2014 – \$1.6 million and \$1.6 million) in dividends from S&WHL.

##### (b) Investment in Joint Ventures

As at May 31, 2015, the Company held a 50.0% interest in InstarAGF, a joint venture with Instar Group Inc. (Instar), and a 37.0% interest in SAFMLP, both of which are alternative asset management companies. The Company accounts for these investments using the equity method.

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 May 31, 2015, the Company accumulated unrecognized losses of \$1.2 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 May 31, 2015, the Company had recorded a receivable of \$4.4 million (November 30, 2014 – \$2.1 million), which was included in accounts receivable, prepaid expenses and other assets on the consolidated interim statement of financial position.

In addition, during the six months ended May 31, 2015, AGF advanced \$1.0 million to Instar in the form of a promissory note, which bears interest at prime. This amount has been included in accounts receivable, prepaid expenses and other assets on the consolidated interim statement of financial position.

At May 31, 2015, the carrying value of SAFMLP was \$0.6 million (November 30, 2014 – \$0.3 million). During the three and six months ended May 31, 2015, the Company recognized earnings of \$0.1 million and \$0.3 million (2014 – nil and nil) related to its investment in SAFMLP.

##### (c) Investment in Long-term Investments

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 fair value through profit or loss (FVTPL).

As at May 31, 2015, of its \$150.0 million allocation, the Company had committed \$50.0 million to Stream, a midstream oil and gas infrastructure fund. As at May 31, 2015, the Company had invested \$28.4 million (November 30, 2014 – \$16.6 million) with \$21.6 million remaining committed capital to be invested in the Stream fund.

At May 31, 2015, the carrying value of Stream was \$27.9 million (November 30, 2014 – \$16.5 million), which represents the Company's maximum exposure to loss related to this investment and is recorded in long-term investments on the consolidated interim statement of financial position. During the three and six months ended May 31, 2015, the Company recognized \$0.6 million and \$1.7 million (2014 – \$0.4 million and \$0.4 million) of income distributions and \$0.1 million recovery and \$0.5 million in charges (2014 – \$0.4 million and \$0.4 million) related to the fair value adjustment on the mark to market of its participation in Stream. The fair value adjustment represents a return of capital received through income distributions.

The Company has committed \$100.0 million to InstarAGF's essential infrastructure fund. During the three and six months ended May 31, 2015, the Company invested nil and \$103.4 million in the essential infrastructure fund. This fund is expected to achieve its first closing with external investors in the latter half of 2015, at which point the Company will receive a return of its capital in excess of its proportionate participation. 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.

At May 31, 2015, the carrying value of the essential infrastructure fund was \$105.6 million (November 30, 2014 – nil), which represents the Company's maximum exposure to loss related to this investment and is recorded in long-term investments on the consolidated interim statement of financial position. During the three and six months ended May 31, 2015, the Company recognized \$1.6 million and \$2.3 million (2014 – nil and nil) in accrued returns related to its investment participation in the essential infrastructure fund.

#### **Note 6: Discontinued Operations**

On August 1, 2012, the Company completed its sale of 100% of the shares of AGF Trust for cash consideration corresponding to the net book value of AGF Trust at closing of \$246.3 million. The agreement included a contingent consideration to a maximum of \$20.0 million over five years if the credit performance of AGF Trust's loan portfolio met certain thresholds. In May 2014, the Company finalized an early settlement of the contingent consideration receivable for \$10.0 million. The amount receivable was settled on June 4, 2014. During the six months ended May 31, 2014, the Company realized a gain on discontinued operations related to this settlement of \$3.9 million, or \$2.8 million after tax. In addition, the Company indemnified the purchaser of AGF Trust against unenforceable loans outstanding or committed as at the date of closing, which may be put back to the Company on a quarterly basis, subject to certain conditions. The put option will expire on October 31, 2017 and indemnifies only against errors in underwriting and not credit deterioration. The carrying value of the loans subject to indemnification was \$3.1 billion at the date of sale. The Company records a provision for indemnified loans when a loan is in default and the put option becomes probable of being exercised, which generally coincides with the receipt of notification by the purchaser that it intends to exercise the put. During the three and six months ended May 31, 2015, the Company recorded a provision of nil (2014 – nil and nil).

#### **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 of the Company's CGUs and related inputs from those disclosed in the Company's annual consolidated financial statements for the year ended November 30, 2014. At May 31, 2015, the Company's Investment Management Retail CGU had assets under management (AUM) of \$19.4 billion (November 30, 2014 – \$19.1 billion) and its Investment Management Institutional CGU had AUM of \$11.7 billion (November 30, 2014 – \$11.3 billion).

#### **Note 8: Long-term Debt**

- (a) During the six months ended May 31, 2015, the Company repaid \$40.0 million of its revolving credit facility (the Facility). The Facility has a maximum aggregate principal amount of \$400.0 million. As at May 31, 2015, AGF had drawn \$270.0 million (November 30, 2014 – \$310.0 million) against the Facility in the form of two one-month bankers' acceptances at an effective average interest rate of 3.0% per annum.
- (b) On January 26, 2015, the Company arranged for a seven-day \$100.0 million short-term bridge facility (the 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 alternative asset investment.

## 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:

Six months ended (in thousands of Canadian dollars, except share amounts)	May 31, 2015		May 31, 2014	
	Shares	Stated value	Shares	Stated value
<b>Class A Voting common shares</b>	57,600	\$ –	57,600	\$ –
<b>Class B Non-Voting shares</b>				
Balance, beginning of the period	85,703,751	\$ 517,467	87,091,646	\$ 524,681
Issued through dividend reinvestment plan	46,252	379	102,284	1,320
Stock options exercised	10,179	101	446,427	4,259
Issued on acquisition of Acuity	–	–	175,367	1,941
Repurchased for cancellation	(2,979,040)	(18,077)	(1,762,200)	(10,623)
Treasury stock purchased for employee benefit trust	(243,506)	(1,867)	(150,000)	(1,833)
Treasury stock released for employee benefit trust	380,020	3,680	1,275	14
Balance, end of the period	82,917,656	\$ 501,683	85,904,799	\$ 519,759

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

AGF has obtained applicable regulatory approval to purchase for cancellation, from time to time, certain of its Class B Non-Voting shares through the facilities of the TSX (or as otherwise permitted by the TSX). AGF relies on an automatic purchase plan during the normal course issuer bid. The automatic purchase plan allows for purchases by AGF of its Class B Non-Voting shares during certain pre-determined black-out periods, subject to certain parameters. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its normal course issuer bid, AGF may purchase up to 10% of the public float outstanding on the date of the receipt of regulatory approval or up to 6,707,999 shares through to February 3, 2016. During the three months ended May 31, 2015, 191,000 (2014 – nil) Class B Non-Voting shares were repurchased at a cost of \$1.4 million (2014 – nil), and the excess paid of \$0.2 million (2014 – nil) over the recorded capital stock value of the shares repurchased for cancellation was charged to retained earnings. During the six months ended May 31, 2015, 2,979,040 (2014 – 1,762,200) Class B Non-Voting shares were repurchased at a cost of \$23.1 million (2014 – \$22.1 million) and the excess paid of \$5.0 million (2014 – \$11.5 million) over the recorded capital stock value of the shares repurchased for cancellation was charged to retained earnings.

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

During the three and six months ended May 31, 2015, 243,506 (2014 – 100,000 and 150,000) Class B Non-Voting shares were purchased for the employee benefit trust. 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 and six months ended May 31, 2015, 7,351 and 380,020 (2014 – 1,275 and 1,275) Class B Non-Voting shares purchased as treasury stock were released. As at May 31, 2015, 328,687 (November 30, 2014 – 465,201) 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
<b>Opening composition of accumulated other comprehensive income (loss) at November 30, 2013</b>				
Accumulated other comprehensive income (loss)	\$ 6,625	\$ 3,154	\$ (3,046)	\$ 6,733
Income tax recovery (expense)	–	(424)	808	384
<b>Balance, November 30, 2013</b>	<b>6,625</b>	<b>2,730</b>	<b>(2,238)</b>	<b>7,117</b>
Transactions during the year ended November 30, 2014				
Other comprehensive income	2,717	358	731	3,806
Income tax recovery (expense)	–	367	(194)	173
<b>Balance, November 30, 2014</b>	<b>9,342</b>	<b>3,455</b>	<b>(1,701)</b>	<b>11,096</b>
Transactions during the period ended May 31, 2015				
Other comprehensive income	6,103	237	29	6,369
Income tax expense	–	(30)	(8)	(38)
<b>Balance, May 31, 2015</b>	<b>\$ 15,445</b>	<b>\$ 3,662</b>	<b>\$ (1,680)</b>	<b>\$ 17,427</b>

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

### Note 11: Fair Value Adjustments and Other Income

(in thousands of Canadian dollars)	Three months ended May 31,	
	2015	2014
Fair value adjustment related to investment in AGF mutual funds (Note 4)	\$ (29)	\$ 28
Fair value adjustment related to long-term investments (Note 5(c))	1,687	557
Distributions from long-term investments (Note 5(c))	646	–
Interest income	110	835
Other	212	104
	<b>\$ 2,626</b>	<b>\$ 1,524</b>

(in thousands of Canadian dollars)	Six months ended May 31,	
	2015	2014
Fair value adjustment related to investment in AGF mutual funds (Note 4)	\$ 906	\$ 215
Fair value adjustment related to acquisition consideration payable	–	422
Fair value adjustment related to long-term investments (Note 5(c))	1,843	557
Distributions from long-term investments (Note 5(c))	1,746	–
Interest income	792	2,284
Other	36	391
	<b>\$ 5,323</b>	<b>\$ 3,869</b>

### Note 12: Expenses by Nature

(in thousands of Canadian dollars)	Three months ended May 31,	
	2015	2014
Selling, general and administrative		
Employee benefit expense	\$ 27,089	\$ 28,546
Sales and marketing	3,616	2,928
Information technology and facilities	6,443	5,746
Professional fees	4,103	4,143
Fund absorption and other fund costs	4,209	5,621
Other	1,127	(227)
	<b>\$ 46,587</b>	<b>\$ 46,757</b>



(in thousands of Canadian dollars)	Six months ended May 31,	
	2015	2014
Selling, general and administrative		
Employee benefit expense	\$ 54,910	\$ 52,610
Sales and marketing	6,280	5,483
Information technology and facilities	11,681	11,149
Professional fees	7,720	8,021
Fund absorption and other fund costs	8,430	9,103
Other	2,318	708
	\$ 91,339	\$ 87,074

### 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 2,676,107 Class B Non-Voting shares could have been granted as at May 31, 2015 (November 30, 2014 – 3,977,755).

The change in stock options during the six months ended May 31, 2015 and 2014 is summarized as follows:

Six months ended	May 31, 2015		May 31, 2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
<b>Class B Non-Voting share options</b>				
Balance, beginning of the period	4,428,542	\$ 12.86	4,823,331	\$ 14.37
Options granted	1,735,122	8.01	417,705	11.43
Options forfeited	(111,938)	14.82	(3,817)	8.93
Options expired	(321,536)	14.72	(149,399)	20.37
Options exercised	(10,179)	8.93	(446,427)	8.75
Balance, end of the period	5,720,011	\$ 11.25	4,641,393	\$ 14.45

During the three months ended May 31, 2015, 539,260 (2014 – nil) stock options were granted and compensation expense and contributed surplus of \$0.2 million (2014 – \$0.2 million) was recorded. During the six months ended May 31, 2015, 1,735,122 (2014 – 417,705) stock options were granted and compensation expense and contributed surplus of \$0.6 million (2014 – \$0.5 million) was recorded. The fair value of options granted during the three months ended May 31, 2015 has been estimated at \$1.32 per option (2014 – \$1.16) using the Black-Scholes option-pricing model, while the fair value of options granted during the three months ended February 28, 2015 has been estimated at \$1.40 per option (2014 – \$1.16). The following assumptions were used to determine the fair value of the options granted during the six months ended May 31, 2015:

Six months ended	May 31, 2015	May 31, 2014
Risk-free interest rate	0.7%	1.6%
Expected dividend yield	3.9% – 4.1%	9.6%
Five-year historical-based expected share price volatility	28.3% – 33.1%	33.3%
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 and six months ended May 31, 2015 related to these share units was \$1.5 million and \$3.4 million (2014 – \$1.5 million and \$0.4 million). As at May 31, 2015, the Company recorded a liability of \$4.0 million (November 30, 2014 – \$3.9 million liability) related to other cash-settled stock-based compensation. As at May 31, 2015, the Company recorded contributed surplus of \$9.2 million (November 30, 2014 – \$10.3 million), net of tax, related to equity-settled RSUs and PIP.

The change in share units of RSUs, PSUs and DSUs during the six months ended May 31, 2015 and 2014 is as follows:

Six months ended	May 31, 2015	May 31, 2014
	Number of share units	Number of share units
Outstanding, beginning of the period		
Non-vested	1,662,193	1,311,817
Issued		
Initial grant	676,178	405,897
In lieu of dividends	63,928	60,775
Settled in cash	(36,106)	(40,998)
Settled in equity	(380,020)	(1,275)
Forfeited and cancelled	(52,774)	(151,948)
Outstanding, end of the period	1,933,399	1,584,268

#### Note 14: Income Tax Expense

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated effective tax rate related to continuing operations for the six months ended May 31, 2015 was 25.0% (2014 – 26.0%).

During the six months ended May 31, 2015, the Company recorded tax contingencies of \$0.8 million (2014 – \$1.0 million) with respect to the Canada Revenue Agency (CRA) transfer pricing audit. Excluding the tax contingencies, the estimated effective tax rate for the six months ended May 31, 2015 was 22.9% (2014 – 23.6%). Refer to Note 19 for additional information on tax contingencies.

The income tax expense related to income from discontinued operations for the six months ended May 31, 2015 was nil (2014 – \$1.0 million).

#### Note 15: Earnings per Share

(in thousands of Canadian dollars, except per share amounts)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
<b>Numerator</b>				
Net income for the period from continuing operations	\$ 14,669	\$ 14,541	\$ 28,224	\$ 31,620
Net income for the period from discontinued operations	–	–	–	2,840
Net income for the period	14,669	14,541	28,224	34,460
<b>Denominator</b>				
Weighted average number of shares – basic	84,489,294	86,009,993	83,930,634	85,996,621
Dilutive effect of share-based payments	937,650	553,628	952,106	549,480
Weighted average number of shares – diluted	85,426,944	86,563,621	84,882,740	86,546,101
<b>Basic earnings per share</b>				
Continuing operations	\$ 0.17	\$ 0.17	\$ 0.34	\$ 0.37
Discontinued operations	–	–	–	0.03
	\$ 0.17	\$ 0.17	\$ 0.34	\$ 0.40
<b>Diluted earnings per share</b>				
Continuing operations	\$ 0.17	\$ 0.17	\$ 0.33	\$ 0.37
Discontinued operations	–	–	–	0.03
	\$ 0.17	\$ 0.17	\$ 0.33	\$ 0.40

### Note 16: Dividends

During the three and six months ended May 31, 2015, the Company paid dividends of \$0.08 and \$0.35 (2014 – \$0.27 and \$0.54) per share. Total dividends paid, including dividends reinvested, in the three and six months ended May 31, 2015 were \$6.6 million and \$29.6 million (2014 – \$23.2 million and \$46.5 million). On June 23, 2015, 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 May 31, 2015, amounting to a total dividend of approximately \$6.6 million. These condensed consolidated interim 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, including severance, paid to the Directors and other key management personnel of AGF is as follows:

(in thousands of Canadian dollars)	Three months ended May 31,		Six months ended May 31,	
	2015	2014	2015	2014
Salaries and other short-term employee benefits	\$ 1,437	\$ 2,686	\$ 2,803	\$ 4,107
Share-based payments	651	24	1,039	(35)
	\$ 2,088	\$ 2,710	\$ 3,842	\$ 4,072

### Note 18: Fair Value of Financial Instruments

Financial assets are classified as fair value through profit or loss (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 Company's assets and liabilities that are measured at fair value as at May 31, 2015:

(in thousands of Canadian dollars)	Level 1		Level 2		Level 3		Total
May 31, 2015							
<b>Assets</b>							
Financial assets at fair value through profit or loss							
Cash and cash equivalents	\$ 47,199	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 47,199
AGF mutual funds and other	19,493	–	–	–	–	–	19,493
Equity securities	584	–	–	–	–	–	584
Long-term investments	–	–	–	136,720	–	–	136,720
Available for sale							
Equity securities and term deposits	5,393	–	–	–	–	–	5,393
Loans and receivables							
Canadian government debt – Federal	–	309	–	–	–	–	309
Total financial assets	\$ 72,669	\$ 309	\$ 136,720	\$ –	\$ –	\$ –	\$ 209,698
<b>Liabilities</b>							
Derivatives used for hedging	\$ –	\$ 2,559	\$ –	\$ –	\$ –	\$ –	\$ 2,559
Total financial liabilities	\$ –	\$ 2,559	\$ –	\$ –	\$ –	\$ –	\$ 2,559

The following table presents the Company's assets and liabilities that are measured at fair value as at November 30, 2014:

(in thousands of Canadian dollars)				
November 30, 2014	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Cash and cash equivalents	\$ 261,498	\$ –	\$ –	\$ 261,498
AGF mutual funds and other	17,676	–	–	17,676
Equity securities	544	–	–	544
Long-term investments	–	–	19,671	19,671
Available for sale				
Equity securities and term deposits	5,304	–	–	5,304
Loans and receivables				
Canadian government debt – Federal		308	–	308
<b>Total financial assets</b>	<b>\$ 285,022</b>	<b>\$ 308</b>	<b>\$ 19,671</b>	<b>\$ 305,001</b>
<b>Liabilities</b>				
Derivatives used for hedging	\$ –	\$ 2,628	\$ –	\$ 2,628
<b>Total financial liabilities</b>	<b>\$ –</b>	<b>\$ 2,628</b>	<b>\$ –</b>	<b>\$ 2,628</b>

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 Canadian banks, an Irish bank and non-Irish banks in Ireland, as well as 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. 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 the essential infrastructure fund at May 31, 2015 has been estimated using cost plus undistributed earnings as there were no significant changes in the expected cash flows or other relevant variables from the date of the Company's investment to May 31, 2015. 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 \$2.8 million. Refer to Note 5(c) for additional information.

The following table presents changes in level 3 instruments for the six months ended May 31, 2015:

(in thousands of Canadian dollars)		Long-term investments
Balance at December 1, 2014	\$	19,671
Purchase of investment, net of return of capital		115,269
Fair value adjustment recognized in profit or loss		1,843
Reclassification of investment		(63)
<b>Balance at May 31, 2015</b>	<b>\$</b>	<b>136,720</b>

There were no transfers into or out of level 1 and level 2 during the three and six months ended May 31, 2015.

## Note 19: Contingencies

- (a) 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.

In November 2013, the Company received a notice of reassessment (NOR) from the CRA relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary, which would increase the Company's taxes payable from its original tax filings by \$10.0 million, \$10.5 million and \$15.4 million (before the application of interest and penalties of \$21.6 million) for its 2005, 2006 and 2007 fiscal years, respectively. In November 2014, the Company also received a NOR from the CRA relating to the same matter, which would increase the Company's taxes payable from its original tax filings by \$13.6 million (before the application of any interest and penalties of \$6.3 million) for its 2008 fiscal year.

The Company strongly disagrees with the CRA's position and filed an objection to the NOR for 2005, 2006 and 2007 in February 2014 and also objected to the NOR for 2008 in February 2015. In connection with the filing of an objection to the NOR for the 2008 fiscal year, the Company was required to pay, and has paid, approximately \$14.5 million (including interest and penalties) during the six months ended May 31, 2015, even though the ultimate outcome may differ from this amount. The Company is not expected to make any further significant payments with respect to the 2005-2008 NOR until the resolution of this matter. Including the payments made during the six months ended May 31, 2015, the Company has paid approximately \$54.0 million with respect to the 2005-2008 NOR.

In consultation with its external advisors, the Company believes that its tax filing positions continue to be reasonable based on its transfer pricing methodology and the Company is contesting the CRA's position and any related transfer pricing penalty. 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 six months ended May 31, 2015, the Company has recorded a tax provision of \$0.8 million (2014 – \$1.0 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 of the final payment to be made on the ultimate resolution of this matter and includes any related estimated interest and penalties for the 2005 to 2015 fiscal years. 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 valuing its income tax assets and liabilities.

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. While it is uncertain whether relief from double taxation will be granted, the Company's provision, which reflects its best estimate of the final payment to be made on the ultimate resolution of this matter, includes an expected recovery of approximately \$10.5 million for the tax years 2005 through 2008 that are not covered in the Bilateral Advance Pricing Arrangement (BAPA) as described below.

The Company has been accepted by the CRA into a BAPA between Canada and the relevant tax authorities to establish the appropriate transfer pricing methodologies for the tax years 2009 through 2016. Under a BAPA, the taxpayer can avoid potential double taxation on transactions covered by the BAPA according to the provisions of the income tax treaty between Canada and the foreign country.

- (b) 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 Company strongly disagrees with the CRA's position and has responded to the proposal letter accordingly. The Company has not yet received a notice of reassessment on this issue and intends to object to any reassessment, if received. It is estimated that the proposal would increase the Company's taxes payable by \$23.5 million (before the application of interest and penalties of \$9.5 million accrued as at May 31, 2015) for its 2007 through 2012 fiscal years. In consultation with its external advisors, the Company continues to believe that its tax position is probable of being sustained and, as a result, has not recorded any tax provision related to this matter. However, the Company cannot predict with certainty the outcome of any audit undertaken by taxation authorities and the final result may vary compared to the estimates and assumptions used by management in determining the Company's consolidated income tax provision and in valuing its income tax assets and liabilities. Depending on the ultimate outcome of any such audit or reassessment, there may be material impact on the Company's financial position, results of operations and cash flows. If a tax reassessment is received from the CRA, the Company would be required to submit an advance deposit on the amount reassessed even where the ultimate outcome is expected to differ. The Company believes it is likely that the CRA will review the FAPI rules applicable to subsequent years and may also reassess its tax returns for subsequent years on a similar basis.

- (c) The Company has also been notified that the CRA is also reviewing the appropriateness of certain deductions claimed in various taxation years. The amount of such deductions under review is up to \$32.1 million and any resulting taxes payable may also be subject to interest and penalties. Management continues to believe that the deductions were reasonable and that its position would be sustained if reassessed. The amounts of the losses related to these claims or potential claims, if any, cannot be determined at this time.

**Note 20: Commitments**

During the quarter, AGF entered into an agreement with Citigroup Fund Services Canada Inc. (CFSC) to transition the Company's transfer agency function from CFSC to AGF. The transition, which will include the transfer of approximately 185 employees from CFSC to AGF, is expected to be completed late in 2015. AGF will not compensate CFSC for the business but will invest approximately \$6.0 million of capital for leaseholds, facilities and technology. As part of this transition agreement, AGF 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 revenue commitment.

*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.*