

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

For the three months ended February 28, 2017 and February 29, 2016



CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis (MD&A) includes forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as 'expects,' 'estimates,' 'anticipates,' 'intends,' 'plans,' 'believes' or negative versions thereof and similar expressions, or future or conditional verbs such as 'may,' 'will,' 'should,' 'would' and 'could.' In addition, any statement that may be made concerning future financial performance (including income, revenues, earnings or growth rates), ongoing business strategies or prospects, fund performance, 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, client-driven asset allocation decisions, 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 general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, taxation, changes in government regulations, unexpected judicial or regulatory proceedings, technological changes, cybersecurity, catastrophic events, and our ability to complete strategic transactions and integrate acquisitions, and attract and retain key personnel. 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 2016 Annual MD&A.

Summary of Quarterly Results

(from continuing operations)

Three months ended (in millions of Canadian dollars, except per share amounts)	Feb. 28, 2017	Nov. 30, 2016 ¹	Aug. 31, 2016 ²	May 31, 2016 ³
Income	\$ 107.2	\$ 104.8	\$ 109.4	\$ 111.1
Expenses ⁶	81.5	74.1	84.1	84.9
EBITDA ⁷	25.7	30.7	25.3	26.2
Pre-tax income	9.8	17.6	10.3	11.8
Net income attributable to equity owners of the Company	9.2	14.6	8.2	9.6
Earnings per share attributable to equity owners of the Company				
Basic	\$ 0.12	\$ 0.18	\$ 0.10	\$ 0.12
Diluted	0.11	0.18	0.10	0.12
Free cash flow ⁷	10.4	21.2	12.9	16.4
Dividends per share	0.08	0.08	0.08	0.08
Long-term debt	198.3	188.2	228.0	228.9
Weighted average basic shares	79,398,426	79,117,939	79,296,221	79,252,324
Weighted average fully diluted shares	80,615,418	80,248,027	80,306,141	80,097,391
Three months ended (in millions of Canadian dollars, except per share amounts)	Feb. 29, 2016	Nov. 30, 2015 ⁴	Aug. 31, 2015 ⁵	May 31, 2015
Income	\$ 103.3	\$ 105.0	\$ 115.8	\$ 117.1
Expenses ⁶	76.0	79.5	84.0	81.1
EBITDA ⁷	27.3	25.5	31.8	36.0
Pre-tax income	12.9	10.3	15.9	19.6
Net income attributable to equity owners of the Company	10.2	8.1	11.9	14.7
Earnings per share attributable to equity owners of the Company				
Basic	\$ 0.13	\$ 0.11	\$ 0.14	\$ 0.17
Diluted	0.13	0.11	0.14	0.17
Free cash flow ⁷	11.1	18.6	17.0	16.8
Dividends per share	0.08	0.08	0.08	0.08
Long-term debt	268.9	268.8	268.7	268.6
Weighted average basic shares	79,449,122	82,532,707	82,826,845	84,489,294
Weighted average fully diluted shares	79,485,581	83,663,389	83,814,065	85,426,944

¹ Includes \$5.2 million of one-time net expense recovery related to a reversal of a provision from prior years related to HST offset by fund transition costs.

² Includes a \$2.1 million charge in income related to the Company's share of a one-time tax levy for Smith & Williamson Holdings Limited.

³ Includes fund transition costs of \$1.5 million.

⁴ Includes one-time restructuring costs of \$2.8 million.

⁵ Includes a \$5.7 million distribution related to a crystallization of an asset and a one-time restructuring cost of \$4.4 million.

⁶ Includes selling, general and administrative (SG&A), trailing commissions and investment advisory fees.

⁷ See 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures' section.

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

This Management's Discussion and Analysis (MD&A) is as of March 28, 2017, and presents an analysis of the financial condition of AGF Management Limited (AGF or the Company) and its subsidiaries for the three month period ended February 28, 2017, compared to the three month period ended February 29, 2016. The MD&A should be read in conjunction with our unaudited Condensed Consolidated Interim Financial Statements for the three months ended February 28, 2017 and our 2016 Annual report. The financial statements for the three months ended February 28, 2017, 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 and facilitate a comparison of quarterly and full-year results from period to period. They allow us to assess our investment management business without the impact of non-operational items. These non-IFRS measures may not be comparable with similar measures presented by other companies. 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. For purposes of this discussion, the operations of AGF and our subsidiary companies are referred to as 'we,' 'us,' 'our,' 'the firm' or 'the Company.'

There have been no material changes to the information discussed in the following sections of the 2016 Annual MD&A: 'Risk Factors and Management of Risk,' 'Contractual Obligations' and 'Intercompany and Related Party Transactions.'

Our Business and Strategy

Founded in 1957, AGF Management Limited (AGF) is a diversified global asset management firm with retail, institutional, alternative and high-net-worth businesses. As an independent firm, we strive to help investors succeed by delivering excellence in investment management and providing an exceptional client experience. Our suite of diverse investment solutions extends globally to a wide range of clients, from financial advisors and individual investors to institutional investors including pension plans, corporate plans, sovereign wealth funds and endowments and foundations.

AGF has investment operations and client servicing teams on the ground in North America, Europe and Asia. With \$35.1 billion in total assets under management as at February 28, 2017, AGF serves more than one million investors. AGF trades on the Toronto Stock Exchange under the symbol AGF.B.

We believe that superior investment performance and product innovation are key to our success. Our target is to consistently have 50% of our ranked AUM above median over one year and 60% above median over three years. For the one-year period ended February 28, 2017, 44% of ranked AUM performed above median, compared with 46% in 2016. For the three-year period ended February 28, 2017, 37% of ranked AUM performed above median, compared with 47% in 2016.

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

- Fundamental Active Management
- Quantitative Solutions and exchange traded funds (ETF) Platform
- Private Client
- Alternative Assets

Fundamental Active Management

AGF's fundamental actively managed platform includes a broad range of equity and fixed income strategies, managing total AUM of \$24.5 billion. Within this platform, we have a number of centres of excellence, including our Global, North American, Fixed Income, and Asset Allocation teams, located in Toronto, Dublin and Singapore. This platform delivers products to retail, institutional investors and strategic partners.

We have strong capability and performance within the global space and we leverage this strength as part of our growth strategy.

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

We continually review our product offering with an aim to provide our advisors and clients a product platform that offers innovative solutions around specific needs, with the goal to create organic AUM growth for the Company and consistent investment returns for our clients.

Quantitative Solutions and ETF Platform

Our quantitative solutions and ETF platform, AGFiQ Asset Management (AGFiQ), brings together a team of over 20 investment professionals, from across AGF and its affiliates, managing AUM of approximately \$4.8 billion.

AGFiQ's portfolio and investment management team has extensive experience in quantitative investing and research with a core investment discipline focused on factor-based investing. AGFiQ is grounded in the belief that investment outcomes can be improved by assessing and targeting the factors that drive market returns with the objective to provide better risk-adjusted returns by utilizing a flexible, multi-factor process centered on the principle of viewing risk through multiple lenses. All of its research and analysis is done internally, backed by an investment team with a diverse skill set ranging from scientists to academics to traditional fundamental analysis.

The AGFiQ platform extends beyond our investment management expertise to include capabilities to deliver the complete trading infrastructure required to support ETFs and related mutual fund products, including the Investment Company Act of 1940 registered products and the ability to offer long and short products as we do today in the U.S. market. Our deep expertise lends itself to the creation of custom solutions in a variety of vehicles including mutual funds, exchange traded products and portfolios, and separately managed accounts designed to help investors achieve the full spectrum of investment objectives from capital appreciation to risk management.

On January 30, 2017, AGF entered the Canadian ETF marketplace with the launch of seven new ETFs, traded on the Toronto Stock Exchange. These products, QuantShares ETFs powered by AGFiQ, are designed to balance risk while providing investors with the opportunity for growth and complement our suite of U.S.-listed factor-based QuantShares ETFs.

Private Client

The private client industry in Canada includes bank-owned firms, as well as large independent firms and boutiques, who continue to retain a significant portion of market share. Our private client platform, which includes Cypress Capital Management Limited (Cypress), located in Vancouver, Doherty & Associates Ltd. (Doherty), with offices in Ottawa and Montreal, and the private client business of Highstreet, located in London, Ontario, provides solutions for high-net-worth individuals, endowments, and foundations in key markets across Canada. These businesses manage total private client AUM of approximately \$5.1 billion, representing growth over the past five years of 51.4%.

Alternative Assets

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

In 2014, as part of our capital reallocation strategy, we formed InstarAGF Inc. (InstarAGF), a joint venture with Instar Group Inc. (Instar) to develop an alternative asset management platform. AGF holds a 50.1% economic interest in InstarAGF. As alternative assets continue to grow in prominence and represent a greater proportion of institutional portfolios, AGF is well positioned to deliver the long-duration, risk-adjusted solutions institutional, retail and high-net-worth investors are seeking to generate predictable cash flow and meet long-dated liabilities.

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

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

Through its ownership interest in InstarAGF and its 37.0% interest in SAFM LP, AGF will earn recurring management fees on these entities' AUM along with a share of net profit as the alternatives platform achieves scale. Through its investment as a limited partner in the various funds managed by InstarAGF and SAFM LP, AGF expects to earn attractive risk-adjusted returns comprising of income and capital appreciation.

To date, InstarAGF and AGF achieved multiple closes of EIF with a number of institutional and high-net-worth investors from Canada, Europe, the United Kingdom and the United States and expect to achieve the final closing of EIF in the second quarter of 2017.

Total AUM for the alternative asset management platform was \$0.7 billion as at February 28, 2017.

Other Businesses

We hold a 32.3% interest in Smith & Williamson Holdings Limited (S&WHL), a leading independent private client investment management, financial advisory and accounting group based in the U.K. S&WHL is one of the top 10 largest chartered accountancy firms in the U.K. and its investment management business has over \$30.5 billion (£18.6 billion) of funds under management and advice as at February 28, 2017. As at February 28, 2017, the carrying value of S&WHL on the consolidated interim statement of financial position was \$94.2 million.

AGF's subsidiary AGF CustomerFirst Inc. (AGFC) provides fund administration services to the AGF mutual funds. This business was internalized in February 2016.

Our Distribution Channels

Retail

Our sales teams manage advisor and strategic account relationships for our retail business, which provides investment management products to the retail and strategic sub-advisory channel. We have regional sales offices across Canada. AGF's wholesaler teams cover over 35,000 external advisors and 200 investment dealers in support of our retail products. We have a number of key partnerships that provide us with a large and robust distribution channel in which to deliver our products to investors. Our continued focus on performance and customer service resulted in achieving positive net sales of \$150.8 million in February of 2017 compared to net redemptions of \$69.5 million in the same month last year. During the three months ended February 28, 2017, retail fund net redemptions improved 61.9% to \$119.0 million, compared to net redemptions of \$312.0 million for the same period last year.

Institutional

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

We define the institutional pipeline as client commitments to fund or redeem a portion or all of their account. As at the date of this MD&A, AGF had a net pipeline of \$53.0 million in sales. This represents forward-looking information. Commitments are not necessarily contractual obligations. Actual amounts funded or redeemed may vary.

Assets Under Management

(in millions of Canadian dollars)	Three months ended				
	February 28, 2017	November 30, 2016	August 31, 2016	May 31, 2016	February 29, 2016
Retail fund AUM (including retail pooled funds), beginning of period	\$ 17,774	\$ 17,811	\$ 17,539	\$ 16,853	\$ 18,030
Gross sales ^{1,2}	641	530	344	431	534
Redemptions ¹	(760)	(744)	(647)	(713)	(846)
Net redemptions	(119)	(214)	(303)	(282)	(312)
Market appreciation (depreciation) of fund portfolios	\$ 644	\$ 177	\$ 575	\$ 968	\$ (865)
Retail fund AUM (including retail pooled funds), end of period	\$ 18,299	\$ 17,774	\$ 17,811	\$ 17,539	\$ 16,853
Average daily retail fund AUM	\$ 17,925	\$ 17,756	\$ 17,682	\$ 17,376	\$ 17,327
Institutional, sub-advisory and ETF accounts AUM, beginning of period	\$ 10,810	\$ 11,033	\$ 11,087	\$ 10,405	\$ 10,867
Net change in institutional, sub-advisory and ETF accounts, including market performance ²	150	(223)	(54)	682	(462)
Institutional, sub-advisory and ETF accounts AUM, end of period	\$ 10,960	\$ 10,810	\$ 11,033	\$ 11,087	\$ 10,405
Private client AUM	\$ 5,143	\$ 4,908	\$ 4,784	\$ 4,586	\$ 4,192
AUM, end of period	\$ 34,402	\$ 33,492	\$ 33,628	\$ 33,212	\$ 31,450
Alternative asset management platform AUM ³	\$ 712	\$ 685	\$ 619	\$ 535	\$ 268
Total AUM, including alternative asset management platform, end of period	\$ 35,114	\$ 34,177	\$ 34,247	\$ 33,747	\$ 31,718

¹ Gross sales and redemptions include rebalancing of AGF Concert Series of \$25.6 million for the three months ended February 29, 2016.

² Retail gross sales and change in institutional and sub-advisory accounts includes a \$149.4 million transfer of an existing client from institutional to retail for the three months ended November 30, 2016.

³ Represents fee-earning committed and/or invested capital from AGF and external investors held through joint ventures. AGF's portion of this commitment is \$150.0 million, of which \$85.2 million has been funded as at February 28, 2017, which includes \$10.1 million return of capital related to the monetization of its seed assets.

Consolidated Operating Results

(in millions of Canadian dollars, except per share data)	Three months ended		
	February 28, 2017	November 30, 2016 ¹	February 29, 2016
Income			
Management, advisory and administration fees	\$ 99.5	\$ 98.9	\$ 95.0
Deferred sales charges	1.8	2.0	2.3
Share of profit of associate and joint ventures	3.0	2.9	4.1
Fair value adjustments and other income	2.9	1.0	1.9
	107.2	104.8	103.3
Expenses			
Selling, general and administrative	50.4	43.2	45.3
Trailing commissions	30.4	30.5	30.0
Investment advisory fees	0.7	0.4	0.7
	81.5	74.1	76.0
EBITDA from continuing operations ²	25.7	30.7	27.3
Amortization, derecognition and depreciation	14.3	11.4	12.2
Interest expense	1.6	1.7	2.2
Income before income taxes	9.8	17.6	12.9
Income taxes	2.6	4.0	2.8
Income from continuing operations, net of tax	7.2	13.6	10.1
Net income (loss) attributable to:			
Equity owners of the Company	\$ 9.2	\$ 14.6	\$ 10.2
Non-controlling interest	(2.0)	(1.0)	(0.1)
	7.2	13.6	10.1
Earnings per share attributable to equity owners of the Company			
Basic earnings per share	\$ 0.12	\$ 0.18	\$ 0.13
Diluted earnings per share	\$ 0.11	\$ 0.18	\$ 0.13

¹ Includes \$5.2 million of one-time net expense recovery related to a reversal of a provision from prior years related to HST offset by fund transition costs.

² 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.

One-time Adjustments

(in millions of Canadian dollars, except per share data)	Three months ended		
	February 28, 2017	November 30, 2016	February 29, 2016
EBITDA from continuing operations	\$ 25.7	\$ 30.7	\$ 27.3
Add:			
One-time net expense recovery related to reversal of HST provision from prior years offset by fund transition costs	–	(5.2)	–
Adjusted EBITDA from continuing operations	\$ 25.7	\$ 25.5	\$ 27.3
Net income from continuing operations attributable to equity owners of the Company	\$ 9.2	\$ 14.6	10.2
Add (deduct):			
Adjustments to EBITDA from above	–	(5.2)	–
Tax impact on the adjustments to EBITDA above	–	1.2	–
Adjusted net income from continuing operations attributable to equity owners of the Company	\$ 9.2	\$ 10.6	\$ 10.2
Adjusted diluted EPS from continuing operations	\$ 0.11	\$ 0.13	\$ 0.13

Income

For the three months ended February 28, 2017, income increased by 3.8% over the previous year, with changes in the categories as follows:

Management, Advisory and Administration Fees

Management and advisory fees are directly related to our AUM levels while administration fees are directly related to the number of client accounts and transactions incurred. Management, advisory and administration fees are recognized on an accrual basis. For the three months ended February 28, 2017, management, advisory and administration fees were \$99.5 million compared to \$95.0 million in 2016. The increase relates to \$5.9 million of fund administration revenue for the three months ended February 28, 2017 as a result of the internalization of this function in February 2016, and a 3.5% increase in average daily retail fund AUM. These positive effects were offset by a strategic reduction in management fees in the second quarter of 2016 and a trend towards lower fee earning retail AUM.

Deferred Sales Charges (DSC)

We receive deferred sales charges upon redemption of securities sold on the contingent DSC or low-load commission basis for which we finance the selling commissions paid to the dealer. The DSC ranges from 1.5% to 5.5%, depending on the commission option of the original subscription price of the funds purchased if the funds are redeemed within the first two years and declines to zero after three or seven years. DSC revenue fluctuates based on the level of redemptions, the age of the assets being redeemed and the proportion of redemptions composed of back-end assets. DSC revenue was \$1.8 million for the three months ended February 28, 2017, compared to \$2.3 million for the same period in 2016, reflecting lower redemption levels.

Share of Profit of Associate and Joint Ventures

Share of profit of associate and joint ventures includes earnings from S&WHL as well as our ownership interest in infrastructure joint ventures. These investments are accounted for under the equity method. Share of profit of associates and joint ventures was \$3.0 million for the three months ended February 28, 2017, compared to \$4.1 million during the same period in 2016.

For the three months ended February 28, 2017, earnings from our 32.3% ownership in S&WHL decreased 25.6% to \$2.9 million, compared to \$3.9 million during the same period in 2016 primarily due to a decrease in foreign exchange rates.

For the three months ended February 28, 2017, earnings related to our ownership in the joint ventures which manages our infrastructure funds was \$0.1 million (2016 – \$0.2 million). For additional information see Note 5(b) of the Condensed Consolidated Interim Financial Statements.

A breakdown of the share of profit of associate and joint ventures is as follows:

(in millions of Canadian dollars)	Three months ended		
	February 28, 2017	November 30, 2016	February 29, 2016
Share of profit of S&WHL	\$ 2.9	\$ 2.7	\$ 3.9
Share of profit of joint ventures ¹	0.1	0.2	0.2
	\$ 3.0	\$ 2.9	\$ 4.1

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

Fair Value Adjustments and Other Income

Fair value adjustments and other income include mark to market adjustments related to AGF mutual funds which are held as seed capital investments and fair value adjustments and distributions associated with our long-term investments. Long-term investments include investments in Stream and EIF, which are accounted for at fair value through profit or loss. During the three months ended February 28, 2017, we recorded \$1.7 million (2016 – \$2.8 million) as fair value adjustments and income distributions related to our economic interest in the investments in our alternative asset management platform. The amounts recorded as income fluctuate primarily with the amount of capital invested. As a result of the multiple closes of EIF, our investment in the fund has been reduced to reflect our proportionate commitment.

(in millions of Canadian dollars)	Three months ended		
	February 28, 2017	November 30, 2016	February 29, 2016
Fair value adjustment related to investment in AGF mutual funds	\$ 0.9	\$ (0.4)	\$ (1.4)
Fair value adjustment and distributions related to long-term investments	1.7	1.5	2.8
Interest income	0.1	0.1	0.3
Other	0.2	(0.2)	0.2
	\$ 2.9	\$ 1.0	\$ 1.9

Expenses

For the three months ended February 28, 2017, expenses increased 7.2% from the same period in 2016. Changes in specific categories are described in the discussion that follows:

Selling, General and Administrative Expenses (SG&A)

SG&A increased by \$5.1 million or 11.3% for the three months ended February 28, 2017, compared to the same period in 2016.

A breakdown of the increase is as follows:

(in millions of Canadian dollars)	Three months ended February 28, 2017
Increase in salaries and benefits	\$ 2.9
Increase in sales and marketing expenses	0.4
Increase in information technology and facilities	1.2
Increase in professional fees	0.5
Increase in fund absorption expense and other fund costs	1.0
Decrease in other expenses	(0.9)
	\$ 5.1

The following explains expense changes in the three months ended February 28, 2017, compared to the same period in the prior year:

- Salaries and benefits increased \$2.9 million for the three months ended February 28, 2017, compared to the same period in 2016, primarily as a result of the internalization of the fund administration function through AGFC.
- Sales and marketing increased \$0.4 million for the three months ended February 28, 2017 due to the launch of our new QuantShares ETFs.
- Information technology and facilities increased \$1.2 million for the three months February 28, 2017, compared to the same period in 2015, due to the internalization of the fund administration function.
- Professional fees increased \$0.5 million for the three months ended February 28, 2017, compared to the same period in 2016, due to timing of expenses.
- Fund absorption and other fund costs expense increased \$1.0 million for the three months ended February 28, 2017, compared to the same period in 2016, as a result of higher absorption rates and other fund-related costs that are primarily driven by AUM and transaction levels.

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 was 0.68% for the three months ended February 28, 2017, compared to 0.69% for the same period in 2016, reflecting a moderate decrease in the proportion of trailer fee paying assets.

EBITDA and EBITDA Margin (Non-IFRS Measures)

EBITDA from continuing operations was \$25.7 million for the three months ended February 28, 2017, compared to \$27.3 million for the same period of 2016. EBITDA margin was 24.0% for the three months ended February 28, 2017, compared to 26.4% in the corresponding period in 2016.

Amortization and Interest Expense

The category represents amortization of deferred selling commissions, customer contracts, other intangible assets, property, equipment, and computer software and interest expense. Deferred selling commissions amortization represents the most significant category of amortization. We internally finance all selling commissions paid. These selling commissions are capitalized and amortized on a straight-line basis over a period that corresponds with their applicable DSC schedule. Unamortized deferred selling commissions related to units redeemed prior to the end of the schedule are immediately expensed. Amortization expense related to deferred selling commissions was \$8.5 million for the three months ended February 28, 2017, compared to \$9.3 million for the same period in 2016. During the three months ended February 28, 2017, we paid \$8.0 million in selling commissions, compared to \$8.6 million in the same period of 2016, reflecting a trend toward front-end sales, which do not pay a DSC commission. As at February 28, 2017, the unamortized balance of deferred selling commissions financed was \$91.6 million (November 30, 2016 – \$92.1 million).

Customer contracts are immediately expensed upon redemption of the AUM.

Customer contracts amortization and derecognition increased \$2.8 million for the three months ended February 28, 2017, compared to the same period in 2016, reflecting higher redemptions in the quarter.

Other intangibles amortization and derecognition increased by \$0.2 million for the three months ended February 28, 2017, compared to the same period in 2016.

Depreciation remained flat for the three months ended February 28, 2017, compared to the same period in 2016.

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

Income Tax Expense

Income tax expense for the three months ended February 28, 2017 was \$2.6 million, as compared to \$2.8 million in the corresponding period in 2016. The estimated effective tax rate for the three months ended February 28, 2017 was 26.4% (2016 – 21.8%). As compared to 2016, the increase is primarily related to a net increase pertaining to the deferred tax assets not recognized.

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

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

(a) CRA Audit – Transfer Pricing

During the period November 30, 2013 to February 28, 2017, the Company has received a number of notices of reassessment (NOR) from the CRA for its 2005 through 2010 fiscal years relating to the transfer pricing and allocation of income between one of the Company's Canadian legal entities and a foreign subsidiary. These reassessments would increase the Company's taxes payable (including interest and penalties of \$32.2 million), net of estimated relief from double taxation of \$21.4 million, from its original tax filings by \$71.9 million. Any Competent Authority relief from double taxation should be granted at the completion of the mutual agreement procedures (MAP) under the applicable tax treaty.

The Company strongly disagrees with the CRA's position and filed various objections to the NOR for the taxation years 2005 to 2010. In connection with the filing of an objection to the NORs for the applicable periods 2005 through 2010, the Company has paid approximately \$60.0 million (\$62.0 million paid, net of \$2.0 million of interest relief refunded by CRA).

In consultation with its external advisors, the Company believes that its transfer pricing methodology was reasonable and the Company is contesting the CRA's position and any related transfer pricing penalty. The Company believes it is likely that the CRA will reassess its taxes for subsequent years on a similar basis and that these may result in future cash payments on receipt of the reassessments. During the three months ended February 28, 2017, the Company has recorded a tax expense of \$0.4 million (2016 – \$0.7 million) in relation to this transfer pricing audit. The amount of tax provision recorded on the consolidated interim statement of financial position reflects management's best estimate on the ultimate resolution of this matter and includes any related estimated interest and penalties for the 2005 to 2017 fiscal years.

In 2013, the Company was accepted by the CRA into a Bilateral Advance Pricing Arrangement (BAPA) between Canada and the relevant tax authorities to establish the appropriate transfer pricing methodologies for the tax years 2011 through 2016. Under a BAPA, the taxpayer will receive certainty as to its transfer pricing arrangements for the years under

consideration, will not be assessed transfer pricing penalties, and can avoid double taxation on transactions covered by the BAPA according to the provision of the income tax treaty between Canada and the foreign country.

(b) CRA Audit – Acquisition of Tax-related Benefits

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

Net Income

The impact of the above income and expense items resulted in net income from continuing operations attributable to the equity owners of the Company of \$9.2 million for the three months ended February 28, 2017, as compared to net income from continuing operations attributable to the equity owners of the Company of \$10.1 million in the corresponding period in 2016.

Earnings per Share

Diluted earnings per share from continuing operations was \$0.11 per share for the three months ended February 28, 2017, as compared to earnings of \$0.13 per share in the corresponding period of 2016.

Liquidity and Capital Resources

As at February 28, 2017, the Company had total cash and cash equivalents of \$26.4 million (November 30, 2016 – \$43.1 million). Free cash flow, as defined on the 'Key Performance Indicators, Additional IFRS and Non-IFRS Measures' section of this MD&A, generated from continuing operating activities was \$10.4 million for the three months ended February 28, 2017, compared to \$11.1 million in the prior period. During the three months ended February 28, 2017, we used \$16.7 million (2016 – \$34.7 million) in cash as follows:

Three months ended (in millions of Canadian dollars)	February 28, 2017	February 29, 2016
Net cash used in operating activities less amounts paid to CRA in relation to ongoing tax matters	\$ (24.5)	\$ (13.5)
Paid to CRA in relation to ongoing tax matters	–	(2.8)
Repurchase of shares under NCIB and treasury stock for EBT	–	(5.4)
Dividends paid	(6.3)	(6.3)
Return of capital (investments) in the alternative asset management platform	3.0	(3.4)
Purchase of property, equipment and computer software related to internalization the transfer agency function	–	(3.2)
Issuance of long-term debt	10.0	–
Proceeds from sale of short-term investments	4.3	0.3
Interest paid	(1.4)	(2.3)
Other	(1.8)	1.9
Change in cash and cash equivalents	\$ (16.7)	\$ (34.7)

The Company's working capital increased \$17.5 million for the first three months of 2017, compared to a decrease of \$9.2 million in the first three months of 2016. The increase in the first three months of 2017 was primarily as a result of a decrease in accounts payable and accrued liabilities and income tax liability.

Total long-term debt outstanding at February 28, 2017 was \$198.3 million (November 30, 2016 – \$188.2 million). The Company's revolving credit facility has a maximum aggregate principal amount of \$320.0 million and includes a \$10.0 million swingline facility commitment. As at February 28, 2017, \$114.9 million was available to be drawn. The loan facility will be available to meet future operational and investment needs. We anticipate that cash balances and cash flow from operations,

together with the available loan facility, will be sufficient in the foreseeable future to implement our business plan, fund our alternative asset management platform commitments, finance selling commissions, satisfy regulatory and tax requirements, service debt repayment obligations, pay quarterly dividends, and fund any future share buybacks.

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 and to invest in future growth opportunities, while ensuring there is available capital to fund our capital commitments related to the alternative asset management platform.

As part of our ongoing strategic and capital planning, the Company regularly reviews its holdings in short- and long-term investments, including its investments in associates and joint ventures, to determine the best strategic use of these assets in order to achieve our long-term capital and strategic goals.

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

Normal Course Issuer Bid

On February 2, 2017, AGF announced that the Toronto Stock Exchange (TSX) had approved AGF's notice of intention to renew its normal course issuer bid (NCIB) in respect of its Class B Non-Voting shares. AGF believes that the purchase for cancellation of Class B Non-Voting shares represents a desirable use of capital when, in the opinion of management, the value of the Class B Non-Voting shares is attractive relative to the trading price of said shares. Purchase for cancellation by AGF of outstanding Class B Non-Voting shares may also be used to offset the dilutive effect of treasury stock released for the employee benefit trust and of shares issued through the Company's stock option plans and dividend reinvestment plan. AGF relies on an automatic purchase plan during the normal course issuer bid. The automatic purchase plan allows for purchases by AGF of its Class B Non-Voting shares during certain pre-determined black-out periods, subject to certain parameters. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its normal course issuer bid, the Class B Non-Voting shares may be repurchased from time to time at prevailing market prices or such other price as may be permitted by the TSX for amounts as follows:

- Between February 6, 2017 and February 5, 2018, up to 4,899,168 Class B Non-Voting shares, or 10% of the public float for such shares, through the facilities of the TSX (or as otherwise permitted by the TSX); and
- Between February 4, 2016 and February 3, 2017, up to 4,664,042 Class B Non-Voting shares, or 10% of the public float for such shares, through the facilities of the TSX (or as otherwise permitted by the TSX).

During the three months ended February 28, 2017, AGF repurchased nil shares under its normal course issuer bid.

During the three months ended February 29, 2016, under its normal course issuer bid, AGF repurchased 1,000,000 Class B Non-Voting shares for a total consideration of \$5.1 million at an average price of \$5.10 per share. During the three months ended February 29, 2016, under its normal course issuer bid, AGF purchased 60,000 Class B Non-Voting shares for the employee benefit trust for a total consideration of \$0.3 million at an average price of \$4.45 per share.

Dividends

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

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

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

Years ended November 30	2017 ¹	2016	2015	2014	2013
Per share	\$ 0.16	\$ 0.32	\$ 0.51	\$ 1.08	\$ 1.08

¹ Represents the total dividends paid in January 2017 and to be paid in April 2017.

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 January 13, 2017 was \$0.08 per share.

On March 28, 2017, the Board of Directors of AGF declared a quarterly dividend on both the Class A Voting common shares and Class B Non-Voting shares of the Company of \$0.08 per share in respect of the three months ended February 28, 2017.

Outstanding Share Data

Set out below is our outstanding share data as at February 28, 2017 and February 29, 2016. For additional detail, see Notes 9 and 13 of the Condensed Consolidated Interim Financial Statements.

	February 28, 2017	February 29, 2016
Shares		
Class A Voting common shares	57,600	57,600
Class B Non-Voting shares	79,374,531	79,178,183
Stock Options		
Outstanding options	7,814,241	7,675,000
Exercisable options	3,784,691	3,028,523

Key Performance Indicators, Additional IFRS and Non-IFRS Measures

We measure the success of our business strategies using a number of key performance indicators (KPI), which are outlined below. With the exception of income, the following KPIs are non-IFRS measures, which are not defined under IFRS. They should not be considered as an alternative to or comparable with net income attributable to equity owners of the Company or any other measure of performance under IFRS. Non-IFRS measures may not be comparable with similar measures presented by other companies. During the year-ended November 30, 2016, we replaced the long-term debt to EBITDA ratio with the net debt to EBITDA ratio as we believe it is a better indicator of how management measures and assesses our business.

Income

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

We derive our income principally from a combination of:

- Management and advisory fees directly related to AUM from our retail, institutional and private client lines of businesses,
- Fund administration fees based on the number of client accounts and transactions incurred,
- DSC earned from investors when mutual fund securities sold on a DSC basis are redeemed,
- 32.3% equity interest in S&WHL, and
- general partnership interest and long-term investments in the alternative asset management platform.

EBITDA

We define EBITDA as earnings before interest, taxes, depreciation and amortization. EBITDA is a standard measure used in the mutual fund industry by management, investors and investment analysts to understand and compare results among participants. 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 of this MD&A for a schedule showing how EBITDA reconciles to our IFRS financial statements.

Free Cash Flow

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

(in millions of Canadian dollars)	Three months ended		
	February 28, 2017	November 30, 2016	February 29, 2016
Net cash provided by (used in) continuing operating activities	\$ (24.5)	\$ 28.5	\$ (16.3)
Adjusted for:			
Net changes in non-cash working capital balances related to operations	27.7	0.5	25.8
Taxes received (paid) related to transfer pricing audit and other tax contingencies	–	(0.1)	2.8
Interest paid	(1.4)	(1.4)	(2.3)
Prior years' cash taxes paid (refunded) and anticipated cash taxes to be refunded (paid) related to the current year continuing operations	8.6	(6.3)	1.1
Free cash flow	\$ 10.4	\$ 21.2	\$ 11.1

EBITDA Margin

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

(in millions of Canadian dollars)	Three months ended		
	February 28, 2017	November 30, 2016	February 29, 2016
EBITDA from continuing operations	\$ 25.7	\$ 30.7	\$ 27.3
Divided by income	107.2	104.8	103.3
EBITDA margin	24.0%	29.3%	26.4%

Net debt to EBITDA Ratio

Net debt to EBITDA ratio provides useful information to management and investors as an indicator of the Company's leverage capabilities. We define the net debt to EBITDA ratio as long-term debt offset against cash and cash equivalents at the end of the period divided by the 12-month trailing EBITDA from continuing operations for the period.

(in millions of Canadian dollars)	Three months ended		
	February 28, 2017	November 30, 2016	February 29, 2016
Net debt	\$ 171.9	\$ 145.1	\$ 254.9
Divided by EBITDA (12-month trailing)	107.9	109.5	120.6
Net debt to EBITDA ratio	159.3%	132.5%	211.4%

Assets Under Management

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

Investment Performance

Investment performance, which represents market appreciation (depreciation) of fund portfolios and is shown net of management fees received, is a key driver of the level of AUM and is central to the value proposition that we offer advisors and unitholders. Growth in AUM resulting from investment performance increases the wealth of our unitholders and, in turn, we benefit from higher revenues. Alternatively, poor investment performance will reduce our AUM levels and result in lower management fee revenues. Strong relative investment performance may also contribute to growth in gross sales or reduced levels of redemptions. Conversely, poor relative investment performance may result in lower gross sales and higher levels of redemptions. Refer to the 'Risk Factors and Management of Risk' section of our 2016 Annual MD&A.

Net Sales (Redemptions)

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

Market Capitalization

AGF's market capitalization is \$481.2 million as compared to its recorded net assets of \$909.3 million as at February 28, 2017. In 2016, we utilized independent specialists to determine the fair value of AGF's cash-generating units (CGUs). Based on the result of the assessment, the recoverable amount of each CGU exceeded its carrying value as at November 30, 2016. There have been no significant changes to the recoverable amount of each CGU as at February 28, 2017. Estimating the fair value of CGUs is a subjective process that involves the use of estimates and judgements, particularly related to cash flows, the appropriate discount rates, terminal growth rates, synergy inclusion rates and an applicable control premium.

Managing Risk

AGF is subject to a number of risk factors that may impact our operating and financial performance. These risks and the management of these risks are detailed in our 2016 Annual MD&A in the section entitled 'Risk Factors and Management of Risk.' The Company has not identified any material changes to the risk factors affecting its business or in the management of these risks.

Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have designed or caused the design of the Internal Controls Over Financial Reporting (ICFR) and Disclosure Controls and Procedures. There have been no changes in AGF's internal controls during the three months ended February 28, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Additional Information

Additional information relating to the Company can be found in the Company's Condensed Consolidated Interim Financial Statements and accompanying notes for the three months ended February 28, 2017, the Company's 2016 Annual Information Form (AIF) and Annual Report, and other documents filed with applicable securities regulators in Canada, and may be accessed at www.sedar.com.