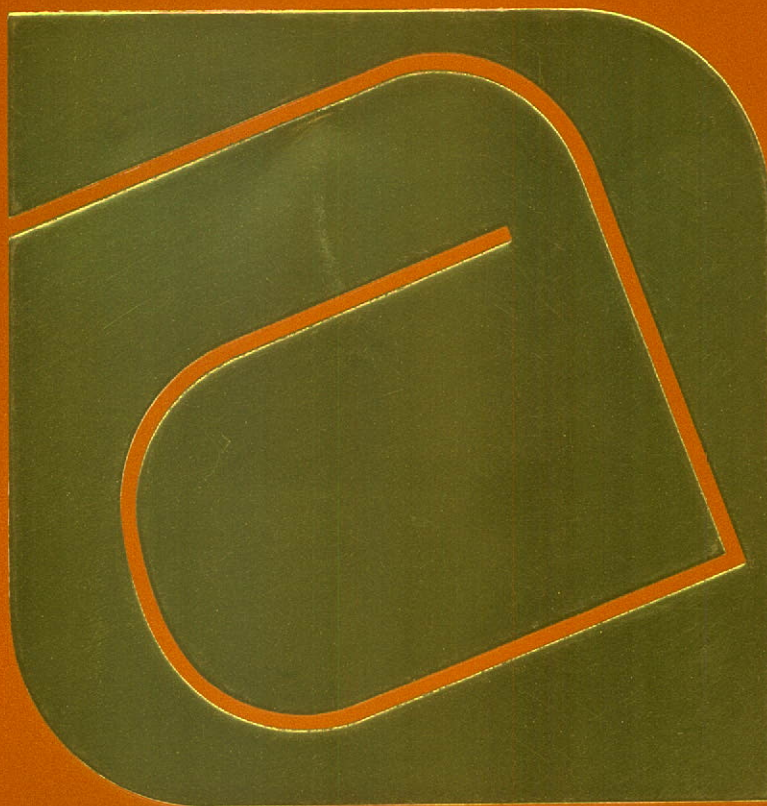


A.G.F. Management Ltd.



HOWARD ROSS LIBRARY
OF MANAGEMENT

JUL 16 1979

MCGILL UNIVERSITY

THE AGF COMPANIES/1978 ANNUAL REPORT



HEAD OFFICE:

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MANAGERS AND DISTRIBUTORS OF:

- | | | |
|-----------------------------------|--|---|
| • AMERICAN GROWTH
FUND LIMITED | • GROWTH EQUITY
FUND LIMITED | • CANADIAN TRUSTEED
INCOME FUND |
| • AGF JAPAN FUND LTD. | • CANADIAN GAS AND
ENERGY FUND LTD. | • AGF MONEY MARKET
FUND |
| • AGF SPECIAL FUND LTD. | • CORPORATE INVESTORS
STOCK FUND LTD. | • CANADIAN SECURITY
GROWTH FUND LTD. |
| • CORPORATE INVESTORS LTD. | | |

INDIVIDUAL INVESTMENT COUNSEL

SUBSIDIARY: AGF SECURITIES INC.,

MEMBER: Pacific Stock Exchange, NASD

AGF MANAGEMENT LIMITED Consolidated Five Year Review

(\$000s)	1978	1977	1976	1975	1974
Operations					
Total revenue	4,560	4,722	5,696	6,749	6,798
Income from operations before extraordinary items	395	414	327	350	157
Net income	487	638	365	560	304
Dividends paid	513	287	408	306	408
Financial position					
Working capital	2,040	2,168	1,320	1,469	1,352
Invested capital**	4,219	4,253	3,909	4,675	3,903
Long term debt	251	264	274	996	491
Shareholders' equity	3,775	3,800	3,451	3,477	3,223
Return on invested capital	9.4%	9.7%	8.4%	7.5%	4.0%
Per share (Class B & Common) (cents per share)					
Net income before extraordinary items	.19	.20	.16	.17	.08
Net income	.24	.31	.18	.27	.15
Dividends	.25	.14	.20	.15	.20
Book value	1.84	1.85	1.68	1.69	1.57
Investment fund assets under management					
(\$millions)	212	221	233	231	195

**Invested Capital = Total assets less current liabilities

REPORT TO SHAREHOLDERS:

The results for the year ending November 30, 1978 compared with the previous year were as follows:

	1978	1977
Revenue	\$4,560,157	\$4,722,315
Net Income from Operations before extraordinary items	\$ 395,212	\$ 414,741*
Extraordinary items	\$ 91,753	\$ 222,762
Net Income	\$ 486,965	\$ 637,503*

*Including \$71,519 from discontinued operations

On a per share basis, net income from operations excluding discontinued operations was 19 cents compared with 17 cents the previous year. In both years there were extraordinary items represented primarily by the receipt of the proceeds from the sale of the institutional investment counsel subsidiary, which were more heavily weighted in 1977. Net income per share after all extraordinary items was 24 cents (1977 - 31 cents).

Revenue from commissions dropped by 18% compared with the previous year, reflecting a continuation of the lackluster market for investment funds in general. Also, there was greater sales emphasis on larger size orders which involve smaller commissions. Correspondingly, commission expense was reduced by 18%. Other sources of revenue were maintained or increased. The continuing efforts of management to offset increases in expense were successful with the result that selling, general and administrative expense actually declined by 2%. This was accomplished in a year when the cost of living rose about 8.4% although the costs of the type your Company incurs - postage, paper and communications, to name but three - increased substantially more than the cost of living.

The most important event for your Company occurred late in 1978 when the Provincial Security Regulators across Canada reviewed National Policy No. 7 which had been in force since 1971 and had placed a ceiling on all fees which could be charged to an investment fund. This Policy placed the entire industry in the predicament that if the "non-controllable" costs such as postage, etc., continued to rise at the same extraordinary rate of the preceding years, there would be a severe squeeze in the operating results of the management companies. Furthermore, a ceiling based on 1970 costs and conditions effectively prevented innovation. As a result of considering these facts the Regulators abolished the fixed ceiling on fees, relying on competition to determine what individual management companies would charge. Any change in fees must be preceded by detailed disclosure to existing and potential investors.

This decision is reassuring to your Company because if costs continue to escalate at recent rates, relief will be available. Furthermore, innovation which was previously uneconomic now becomes feasible. However, for the competitive reasons mentioned in the Regulators' decision, there is no present intention of asking the shareholders of our Funds generally to increase the management fees.

It was another outstanding year of investment results for your Company's Funds. The following table outlines the

consistent and superior performance of the Funds in this market cycle which commenced in 1975.

GROWTH FUNDS INVESTMENT PERFORMANCES

Increase in Net Asset Value per share in calendar year.
(Dividends reinvested)

FUND	1978	1977	1976	1975
*Growth Equity Fund	41%	36%	20%	20%
*Canadian Gas & Energy Fund	16%	45%	27%	33%
American Growth Fund	19%	-3%	18%	19%
AGF Special Fund	30%	23%	34%	41%
AGF Japan Fund	57%	11%	33%	42%
*RRSP Qualified Funds				

A five-year comparison of financial figures is shown on the opposite page. There is a general impression that your Company is entirely dependant on the stock market and that its revenues and profits move parallel to stock prices. A study of the five-year record shows that the relationships are much more complex. For example, revenue has declined from 1974 to 1978, yet Fund performance and stock exchange activity has increased. Expenses have been reduced in spite of inflationary rises in costs, with the result that income from operations has risen. Return on invested capital has more than doubled.

Prior to 1978, dividends on AGF Management shares were paid twice a year - an interim in July and a final in January, relating to the preceding year. When dividends are set forth on a fiscal year basis, as they are in the Table, the results are distorted. In 1978, quarterly dividends were initiated, starting in July, with the extra quarter "catch up" dividend included. Dividends are subject to declaration by the Directors, but the present rate is 5 cents per quarter.

There were some changes in personnel in the past year. Mr. Ted Walker, who had been associated for a number of years with your Company and in prior years with CSM Management Ltd., which was acquired in 1972, resigned to accept a responsible position with a major trust company. Mr. Farquharson assumed the Fund managerial responsibilities which Mr. Walker had held.

In order to broaden your Company's revenue base, Mr. Bill Berghuis was appointed Vice President with particular responsibilities for individual investment counsel development. Mr. Berghuis has had over twenty years' experience in this particular area with one of Canada's outstanding stock brokerage firms.

The most important asset of your Company is the staff. The year 1978 demonstrated again that they are dedicated and hard working and becoming ever more proficient in their respective responsibilities. Their efforts are fully appreciated.

For the Board of Directors



February 28, 1979

C. W. Goldring
President

**A.G.F. MANAGEMENT LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENT OF INCOME

	Year ended November 30	
	1978	1977 (Note 1)
Revenue:		
Commissions	\$1,380,797	\$1,686,023
Management and investment counsel fees	2,347,284	2,363,013
Administration fees and other revenue	832,076	673,279
	<u>4,560,157</u>	<u>4,722,315</u>
Expenses:		
Commissions	779,344	945,245
Selling, general and administrative	3,024,256	3,083,534
Interest on convertible debentures	20,593	21,641
Depreciation and amortization	37,416	28,410
	<u>3,861,609</u>	<u>4,078,830</u>
	698,548	643,485
Provision for income taxes:		
Current, including foreign withholding taxes	320,168	310,303
Deferred	(27,648)	(18,084)
	<u>292,520</u>	<u>292,219</u>
Income from continuing operations before the undernoted items	406,028	351,266
Interest of minority shareholders in earnings of subsidiaries	(10,816)	(8,044)
Net income from discontinued subsidiary operations (Note 1)	—	71,519
	<u>(10,816)</u>	<u>63,475</u>
Net income before extraordinary items	395,212	414,741
Extraordinary items:		
Reduction of income taxes arising from the carry forward of losses of prior years	34,165	21,054
Gain on sale of investments less income taxes of \$18,562 (1977 — deferred income taxes of \$34,828)	57,588	201,708
	<u>91,753</u>	<u>222,762</u>
Net income for the year	<u>\$ 486,965</u>	<u>\$ 637,503</u>
Net income per share (Note 7)	<u>24¢</u>	<u>31¢</u>

**A.G.F. MANAGEMENT LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended November 30	
	1978	1977 (Note 1)
Working capital provided:		
From operations —		
Net income before extraordinary items	\$ 395,212	\$ 414,741
Add (deduct) charges (credits) not affecting working capital —		
Depreciation and amortization	37,416	31,164
Deferred income taxes	3,800	(2,500)
Income taxes not payable due to loss carry-forward	34,165	21,054
Interest of minority shareholders in earnings of subsidiaries	10,816	8,044
Equity earnings of MFS Limited	(31,960)	(27,455)
Other	(1,355)	(1,545)
	<u>448,094</u>	<u>443,503</u>
 Proceeds on sale of investments less income taxes of \$18,562 (1977 — less income taxes and working capital of subsidiaries at date of sale of \$172,081)	 72,588	 710,627
Issue of Class B shares	500	—
Refund of contingency deposit	—	10,000
	<u>521,182</u>	<u>1,164,130</u>
 Working capital applied:		
Purchase of office furnishings, equipment and leasehold improvements (net)	115,094	1,274
Dividends paid	513,116	287,342
Reduction of convertible debentures	11,145	8,455
Investment in former subsidiary	—	15,000
Other	10,235	3,774
	<u>649,590</u>	<u>315,845</u>
 Increase (decrease) in working capital (Note 11)	 (128,408)	 848,285
 Working capital at beginning of year	 <u>2,168,351</u>	 <u>1,320,066</u>
 Working capital at end of year	 <u>\$2,039,943</u>	 <u>\$2,168,351</u>

Assets

November 30

1978

1977

Current assets:

Cash and term deposits	\$ 941,842	\$ 823,164
Cash held in trust	316,817	121,845
Short-term investments, at cost (market value — \$1,083,382; 1977 — \$790,716)	1,083,382	790,716
Receivable for sales of mutual fund shares	591,037	284,433
Other accounts receivable and accrued income	326,833	695,948
Marketable securities, at lower of cost and written down value (market value \$398,121; 1977 — \$638,218)	372,336	631,299
Prepaid expenses	27,848	29,059
	<u>3,660,095</u>	<u>3,376,464</u>
Investments (Note 2)	67,019	50,059
Office furnishings, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of \$568,611 (1977 — \$531,195)	240,598	162,920
Deferred income tax charges	11,700	15,500
Other assets, at cost	179,870	179,870
Excess of cost of shares of subsidiary companies over book value at dates of acquisition	1,680,315	1,676,905

\$5,839,597\$5,461,718

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RY COMPANIES

BALANCE SHEET

Liabilities and Shareholders' Equity

	November 30	
	1978	1977
Current liabilities:		
Payable to mutual funds for purchases of shares	\$ 879,111	\$ 372,756
Accounts payable and accrued liabilities	555,948	562,507
Income taxes payable	114,835	184,002
Provision for foreign withholding taxes	66,837	53,979
Deferred income taxes	3,421	34,869
	<u>1,620,152</u>	<u>1,208,113</u>
8% convertible debentures (Note 3)	251,500	264,000
Warrant stabilization fund (Note 4)	164,418	164,418
Interest of minority shareholders in net assets of subsidiaries	28,404	24,413
Shareholders' equity:		
Capital stock (Note 5) —		
Authorized —		
2,700,000 Class B non-voting participating preference shares without par value		
240,000 common shares without par value		
Issued and outstanding —		
2,050,470 Class B shares (1977 — 2,050,435)	1,458,344	1,457,844
2,400 common shares	40	40
	<u>1,458,384</u>	<u>1,457,884</u>
Retained earnings	2,316,739	2,342,890
	<u>3,775,123</u>	<u>3,800,774</u>
APPROVED BY THE BOARD:		
C. W. GOLDRING, Director		
R. LAW, Director		
	<u>\$5,839,597</u>	<u>\$5,461,718</u>

**A.G.F. MANAGEMENT LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended November 30	
	1978	1977
Retained earnings at beginning of year	\$2,342,890	\$1,992,729
Net income for the year	486,965	637,503
	<u>2,829,855</u>	<u>2,630,232</u>
Deduct: Dividends on Class B and common shares (25¢ per share; 1977 — 14¢)	513,116	287,342
Retained earnings at end of year	<u>\$2,316,739</u>	<u>\$2,342,890</u>

AUDITORS' REPORT

To the Shareholders of
A.G.F. Management Limited:

We have examined the consolidated balance sheet of A.G.F. Management Limited as at November 30, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at November 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

**A.G.F. MANAGEMENT LIMITED
AND SUBSIDIARY COMPANIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 1978

1. ACCOUNTING POLICIES:

Consolidation—

The consolidated financial statements include the accounts of the Company and all of its subsidiaries except that the 1977 comparative figures have been restated to disclose separately the equity earnings of subsidiaries sold in July, 1977.

The records of AGF Securities, Inc., a New York corporation, are maintained in U.S. dollars. The accounts are translated into Canadian dollars for inclusion in the consolidated financial statements as follows: assets and liabilities at the rate of exchange in effect at November 30, except certain non-current assets which are at rates in effect when acquired; income and expenses at average rates of exchange during the year. Unrealized gains and losses on translation are included in the consolidated statement of income.

Excess of cost of shares of subsidiary companies over book value at dates of acquisition—

These amounts relate substantially to acquisitions made prior to April 1, 1974 and are not being amortized since in the opinion of management their value has not diminished.

Depreciation—

Depreciation is recorded in the accounts of the companies at the maximum rates allowed for income tax purposes.

Income of foreign subsidiary—

Withholding taxes are provided on the portion of the earnings of AGF Securities Inc. which might reasonably be expected to be paid to A.G.F. Management Limited in future dividends. Accordingly, withholding taxes have been provided on the excess of the shareholders' equity of AGF Securities, Inc. over \$750,000. Consolidated income for 1978 has been charged with \$12,800 and 1977 consolidated income was charged with \$41,500 of which \$4,000 was the withholding taxes payable on the earnings of AGF Securities Inc. for that year.

Income taxes—

The Company provides deferred income taxes on timing differences between income for tax purposes and income recorded in the accounts.

2. INVESTMENTS:

	November 30	
	1978	1977
Shares of MFS Limited, at equity (representing a 20% interest)	\$ 67,019	\$ 35,059
Shares of agf Toronto Investment Management Inc., at cost (representing a 10% interest)	—	15,000
	\$ 67,019	\$ 50,059

The Company's share of the net earnings of MFS Limited for the year ended November 30, 1978 amounted to \$31,960 (1977—\$27,455) and is included in revenue in the consolidated statement of income.

3. 8% CONVERTIBLE DEBENTURES:

The 8% convertible debentures are redeemable sinking fund debentures maturing November 25, 1981. Each debenture is convertible at any time prior to November 23, 1981 into Class B non-voting shares on the basis of one share for each \$14 of debenture principal. For this purpose 17,965 Class B non-voting shares are reserved. The debentures were issued under a trust indenture dated October 15, 1971 and are secured equally and rateably by a floating charge upon the undertaking and all the property and assets of the Company. The trust indenture provides that a sinking fund be established requiring payments to the Trustee of such amount as shall be sufficient to retire \$50,000 principal amount of the debentures on November 25, in each of the years 1976 to 1980 inclusive.

To date \$248,000 principal amount of the debentures have been purchased for cancellation. In accordance with the provisions of the trust indenture, the purchased debentures are available to be used as a credit against the required sinking fund payments referred to in the preceding paragraph.

4. WARRANT STABILIZATION FUND:

Pursuant to arrangements made with the Ontario Securities Commission in 1965, net gains realized from trading in Canadian Gas and Energy Fund Ltd. Series B warrants are to be used in stabilizing the warrant market and for assistance in the eventual elimination of such warrants. The warrant stabilization fund is not available for distribution to the shareholders of A.G.F. Management Limited.

5. CLASS B NON-VOTING PREFERENCE SHARE STOCK OPTIONS:

As at November 30, 1978 options to purchase 23,000 Class B shares were outstanding at prices between \$3.40 and \$3.60 per share, including 21,600 shares granted to directors and officers.

6. INCOME TAXES:

As at November 30, 1978 the following amounts are available to offset against future taxable income, the potential tax benefit of which has not been recorded in the accounts:

	November 30	
	1978	1977
Loss carry-forward represented by excess of undepreciated capital cost of fixed assets for income tax purposes over net book value	\$185,000	\$217,400
Amounts charged against income in the accounts not yet claimed for income tax purposes	33,300	71,000
	<u>\$218,300</u>	<u>\$288,400</u>

7. EARNINGS PER SHARE:

	Year ended November 30	
	1978	1977
Earnings per Class B and common share—		
Net income before extraordinary items	19¢	20¢
Extraordinary items	5¢	11¢
Net income for the year	<u>24¢</u>	<u>31¢</u>

No dilution would result upon the exercise of the outstanding share purchase warrants or options.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

During the year ended November 30, 1978 a total of fourteen directors and senior officers received direct remuneration totalling \$353,000 as compared with \$458,000 for seventeen directors and senior officers during the prior year.

9. LONG-TERM LEASE COMMITMENTS:

The Company is committed under a long-term lease for office premises expiring January 31, 1988, which requires annual rental payments, subject to future escalation charges, of approximately \$330,000.

10. CONTINGENT LIABILITY:

As at November 30, 1978 a contingent liability in the amount of approximately \$91,000 exists for unreconciled share differences, substantially in the accounts of one fund, which arose prior to the Company purchasing Canadian Security Management Limited, the previous manager of the fund in question. Full provision has been made in the accounts for this contingent liability and a continuing effort is being made by the Company to locate the reason for the differences.

11. ANALYSIS OF CHANGES IN WORKING CAPITAL:

	Year ended November 30	
	1978	1977
Increase (decrease) in current assets:		
Cash, term deposits and short-term investments	\$ 606,316	\$ 93,429
Accounts receivable	(62,511)	(287,458)
Income taxes recoverable	—	(38,056)
Marketable securities	(258,963)	595,389
Prepaid expenses	(1,211)	(15,198)
	<u>283,631</u>	<u>348,106</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	499,796	(674,043)
Income taxes payable	(69,167)	164,236
Provision for foreign withholding taxes	12,858	41,513
Deferred income taxes	(31,448)	(31,885)
	<u>412,039</u>	<u>(500,179)</u>
Increase (decrease) in working capital	<u>\$ (128,408)</u>	<u>\$848,285</u>

officers & directors

W.A. Manford, *Director and Chairman of the Board*

C.W. Goldring, *Director and President*

K.J. Gray, *Director and Senior Vice-President*

W.R. Farquharson, *Director and Vice-President*

W.A. Keyser, *Director*

R. Law, *Q.C. Director*

G.B. Sutherland, *Director*

J.E. Hall, *C.A. Vice-President, Secretary and Treasurer*

W.W. Berghuis, *Vice-President*

W.D. Cameron, *Vice-President*

W.F. Keating, *Vice-President*

R.J. Whiting, *Vice-President*

Y.C. Jerred, *C.G.A., Assistant Treasurer*

M.J. Turner, *Assistant Secretary*





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(416) 367-1900

Stock Transfer Agent
Montreal Trust Company

Stock Exchange Listing
Toronto: Stock symbol AGFM

Auditors
Price Waterhouse & Co., Toronto

