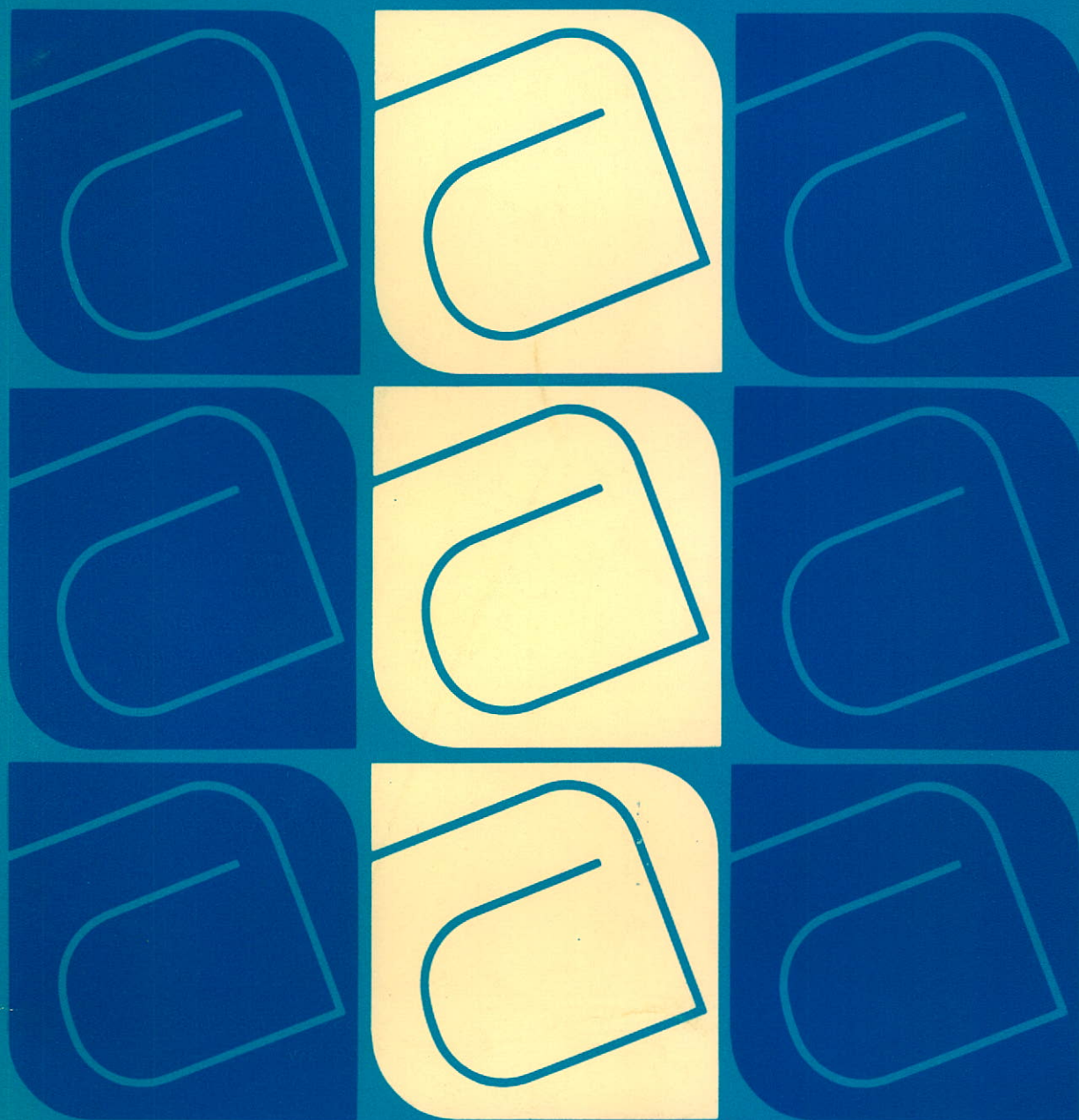
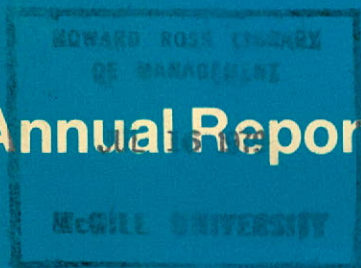


A.G.F. Management Ltd.

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Annual Report for the Year 1977



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*

C.H. Otto, *Director*

G.B. Sutherland, *Director*

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

W.D. Cameron, *Vice-President*

W.F. Keating, *Vice-President*

E.A. Walker, *Vice-President*

R.J. Whiting, *Vice-President*

L.D. Janisse, *Secretary*

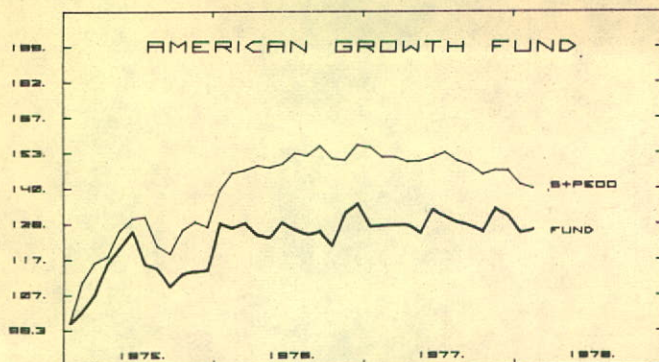
Y.C.P. Dacosta, C.G.A., *Assistant-Treasurer*

M.J. Turner, *Assistant Secretary*



THE AGF GROUP OF FUNDS

RETURN INDEX COMPARISON (COMPARED TO VARIOUS INDEXES)



TO THE SHAREHOLDERS:

For shareholders of this Company, 1977 was not only a better year but a reassuring year. The financial highlights tell the story:

	1977	1976
Earnings per share before extraordinary items —	20¢	16¢
Earnings per share after extraordinary items —	31¢	18¢
Book Value per share —	\$1.85	\$1.68
Working Capital —	\$2,170,000	\$1,320,000

The year 1977 was not good for capital markets. For example the Dow Jones Industrial Average started the year at close to 1000 and ended near 800. Furthermore, this was the sixth time in the last 11 years that a decline in this range has taken place. The Dow Jones Industrial Average is now at a level which it first attained in 1963. Interest rates also moved higher during the year.

The reasons for the discouraging securities markets are amply covered by commentators and the media. Clearly, the markets are reflecting the current low level of investor confidence. While there is not likely to be any single act or event which will trigger a change, nevertheless, we expect that without warning, confidence will start to rise and this long period of desultory markets will be part of history.

In spite of the difficult market conditions the Funds under your Company's management enjoyed a remarkably good year. An insert in this report shows graphically the performance of the AGF Group of Funds and, without exception, they have all performed well in the markets they are designed to represent.

The Fund portfolio managers adroitly placed emphasis on those selective areas where performance was positive and this resulted in most satisfactory individual fund performances. Special mention should be made of Canadian Gas & Energy Fund which was the acknowledged top performing fund in Canada with a total return of 45.4%.

The important point, we believe, is that this year's investment results represent a continuation of a trend going back several years. For example, our principal growth and income Funds have had the following total return (capital gains plus dividends) for the past three years:

	1975	1976	1977
Growth			
Canadian Gas & Energy Fund	33%	27%	45%
Growth Equity Fund	20%	20%	36%
American Growth Fund	19%	18%	— 3%
AGF Special Fund	41%	34%	23%
AGF Japan Fund	42%	33%	11%
Income			
Canadian Trusteed Income Fund	11%	19%	9%

With regard to the sales of the Funds during the year, trends remained much as they have over the past few years. There is a broader list of brokers and investment dealers selling our Funds and although total volumes of sales were not as high as in the previous year, the mix of large orders and small orders was better and sales during the RRSP season improved over the previous year by 25%. There was a significant increase in the sales of our Funds to pension funds.

The transaction which was announced in our semi-annual statement concerning the sale of AGF Toronto Investment Management Inc., the investment counsel subsidiary of your Company, to Starlaw Investments Limited was completed. Another significant development was the location of the administrative division of MFS Limited in new quarters in downtown Toronto. Consequently the staff of your Company which had been responsible for the shareholder accounts prior to the formation of MFS and who became employees of MFS after this formation, moved in June of 1977 to their new building. This move, together with the development of a new software package, and the acquisition of several new clients, indicates a bright future for this Company which is 20% owned by AGF Management Limited.

Lastly, it is with sincere regret that your management accepted the retirement of Mr. W. A. Manford from active involvement in the Company's affairs as of May, 1977. Mr. Manford was the founder of the Company and President until December, 1973. It is not possible to express in a few words the debt which this Company owes to Mr. Manford as he guided its fortunes from very small beginnings to being one of the largest companies of its type in Canada. He was a friend to all in the Company and his wise counsel and broad perspective of not only securities markets in the U.S. and Canada, but also of business problems relating to your Company are missed on a day-to-day basis. However, we are pleased that he has agreed to remain on the Board and therefore his counsel and guidance continue to be available to your Management.

On behalf of the Board of Directors,



March 8, 1978

C. W. Goldring
President

CONSOLIDATED STATEMENT OF INCOME

	Year ended November 30	
	1977	1976
Revenue:		
Commissions	\$1,686,023	\$1,899,963
Management and investment counsel fees	2,921,453	3,150,990
Stock exchange specialist operations	—	7,305
Administration fees and other revenue	686,547	637,806
	<u>5,294,023</u>	<u>5,696,064</u>
Expenses:		
Commissions	957,638	1,107,352
Selling, general administrative	3,522,392	3,850,116
Interest on long-term liabilities	21,641	62,294
Depreciation and amortization	31,164	35,207
	<u>4,532,835</u>	<u>5,054,969</u>
Income before income taxes, interest of minority shareholders and extraordinary items	761,188	641,095
Provision for income taxes:		
Current, including foreign withholding taxes	366,801	282,278
Deferred	(18,084)	24,237
	<u>348,717</u>	<u>306,515</u>
Net income before the undernoted items	412,471	334,580
Interest of minority shareholders in earnings of subsidiaries	8,044	7,473
Net income before extraordinary items	<u>404,427</u>	<u>327,107</u>
Extraordinary items:		
Reduction of income taxes arising from the carry-forward of losses of prior years	31,368	37,483
Gain on sale of investment in subsidiaries less deferred income taxes of \$34,828	201,708	—
	<u>233,076</u>	<u>37,483</u>
Net income for the year	<u>\$ 637,503</u>	<u>\$ 364,590</u>
Net income per share (Note 7)	<u>31¢</u>	<u>18¢</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended November 30
1977 1976

Working capital provided:

From operations—

Net income before extraordinary items

\$ 404,427 \$ 327,107

Add (deduct) charges (credits) not

affecting working capital—

Depreciation and amortization

31,164 35,207

Deferred income taxes

(2,500) 20,500

Income taxes not payable due to

loss carry-forward

31,368 37,483

Interest of minority shareholders in

earnings of subsidiaries

8,044 7,473

Equity earnings of MFS Limited

(27,455) (7,584)

Other

(1,545) 3,604

443,503 423,790

Refund of contingency deposit

10,000 —

Repayment of bank term deposit

— 575,000

Proceeds on sale of subsidiary companies

less income taxes and working capital of

subsidiaries at date of sale of \$172,081

710,627 —

1,164,130 998,790

Working capital applied:

Purchase of office furnishings, equipment

and leasehold improvements (net)

1,274 6,082

Dividends paid

287,342 408,231

Reduction of debentures

8,455 146,500

Investment in former subsidiary

15,000 —

Repayment of term bank loan

— 575,000

Cost of acquisition of shares of subsidiaries

— 778

Other

3,774 10,868

315,845 1,147,459

Increase (decrease) in working capital (Note 11)

848,285 (148,669)

Working capital at beginning of year

1,320,066 1,468,735

Working capital at end of year

\$2,168,351 \$1,320,066

Assets

	November 30	
	1977	1976
Current assets:		
Cash and term deposits	\$ 823,164	\$ 827,735
Cash held in trust	121,845	44,561
Short-term investments, at cost (market value—\$790,716; 1976—\$770,000)	790,716	770,000
Receivable for sales of mutual fund shares	284,433	838,131
Receivable for securities transactions	461	544
Other accounts receivable and accrued income	692,518	418,264
Income taxes recoverable	—	38,056
Trading account securities—long, at approximate market value	2,969	10,900
Marketable securities, at lower of cost and written down value (market value \$638,218; 1976—\$44,939)	631,299	35,910
Prepaid expenses	29,059	44,257
	<u>3,376,464</u>	<u>3,028,358</u>
Investments (Note 2)	50,059	40,937
Office furnishings, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of \$531,195 (1976—\$514,675)	162,920	210,709
Deferred income tax charges	15,500	13,000
Other assets, at cost	179,870	189,870
Excess of cost of shares of subsidiary companies over book value at dates of acquisition	1,676,905	2,134,407
	<u><u>\$5,461,718</u></u>	<u><u>\$5,617,281</u></u>

Liabilities and Shareholders' Equity

	November 30	
	1977	1976
Current liabilities:		
Payable for purchases of mutual fund shares	\$ 372,756	\$ 825,060
Accounts payable and accrued liabilities	562,507	784,246
Income taxes payable	184,002	19,766
Provision for foreign withholding taxes	53,979	12,466
Deferred income taxes	34,869	66,754
	<u>1,208,113</u>	<u>1,708,292</u>
Long-term liabilities (Note 3)	264,000	274,000
Warrant stabilization fund (Note 4)	164,418	164,418
Interest of minority shareholders in net assets of subsidiaries	24,413	19,958
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 —		
2,050,435 Class B shares	1,457,844	1,457,844
2,400 common shares	40	40
	<u>1,457,884</u>	<u>1,457,884</u>
Retained earnings	2,342,890	1,992,729
	<u>3,800,774</u>	<u>3,450,613</u>
APPROVED BY THE BOARD:		
C. W. GOLDRING, Director		
R. LAW, Director		
	<u><u>\$5,461,718</u></u>	<u><u>\$5,617,281</u></u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended November 30	
	1977	1976
Retained earnings at beginning of year	\$1,992,729	\$2,098,520
Less: Adjustment relating to amalgamation	—	62,150
	1,992,729	2,036,370
Net income for the year	637,503	364,590
	2,630,232	2,400,960
Deduct: Dividends on Class B and common shares (14¢ per share; 1976—20¢)	287,342	408,231
Retained earnings at end of year	<u>\$2,342,890</u>	<u>\$1,992,729</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, 1977 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, 1977 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 1977

1. ACCOUNTING POLICIES:

Consolidation—

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

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 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 (\$1,000,000 in 1976 and prior years). Consolidated income for 1977 has been charged with \$41,500, of which \$4,000 relates to the subsidiary's current year's earnings and 1976 consolidated income was charged with \$7,000 being 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	
	1977	1976
Shares of MFS Limited, at equity (representing a 20% interest)	\$ 35,059	\$ 7,604
Shares of AGF Toronto Investment Management Inc., at cost (representing a 10% interest)	15,000	—
Shares of a former subsidiary company, at cost (representing a 33 1/3% interest)	—	33,333
	<u>\$ 50,059</u>	<u>\$ 40,937</u>

The Company's share of the net earnings of MFS Limited for the year ended November 30, 1977 amounted to \$27,455 (1976—\$7,584) and is included in revenue in the consolidated statement of income.

3. LONG-TERM LIABILITIES:

	November 30	
	1977	1976
8% convertible debentures	<u>\$264,000</u>	<u>\$274,000</u>

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 18,858 Class B non-voting shares are reserved. The debentures were issued under a trust indenture dated October 15, 1971 and are secured equally and ratably 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 \$236,000 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 SHARES:

(a) Stock options—

As at November 30, 1977 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.

(b) Warrants—

As at November 30, 1977, 17,299 warrants, each entitling the holder to purchase one Class B share of the Company at a price of \$7.50 per share at any time up to December 31, 1977, were outstanding.

6. INCOME TAXES:

As at November 30, 1977 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	
	1977	1976
Losses for income tax purposes, expiring 1978-1981	\$ —	\$ 28,000
Loss carry-forward represented by excess of undepreciated capital cost of fixed assets for income tax purposes over net book value	217,400	259,000
Amounts charged against income in the accounts not yet claimed for income tax purposes	<u>71,000</u>	<u>71,000</u>
	<u>\$288,400</u>	<u>\$358,000</u>

7. EARNINGS PER SHARE:

	Year ended November 30	
	1977	1976
Earnings per Class B and common share—		
Net income before extraordinary items	20¢	16¢
Extraordinary items	<u>11</u>	<u>2</u>
Net income for the year	<u>31¢</u>	<u>18¢</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, 1977 a total of seventeen directors and senior officers received direct remuneration totalling \$458,000 as compared with \$509,000 for sixteen 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 \$270,000.

10. CONTINGENT LIABILITY:

As at November 30, 1977 a contingent liability exists for unreconciled share differences in the accounts of certain funds which arose prior to the Company purchasing Canadian Security Management Limited, the previous manager of the funds in question. 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	
	1977	1976
Increase (decrease) in current assets:		
Cash, term deposits and short-term investments	\$ 93,429	\$ 68,426
Accounts receivable	(279,527)	401,468
Income taxes recoverable	(38,056)	(15,708)
Trading account securities	(7,931)	(84,712)
Marketable securities	595,389	—
Prepaid expenses	(15,198)	(7,267)
	<u>348,106</u>	<u>362,207</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(674,043)	685,953
Trading account securities	—	(114,025)
Income taxes payable	164,236	(37,998)
Provision for foreign withholding taxes	41,513	(26,791)
Deferred income taxes	(31,885)	3,737
	<u>(500,179)</u>	<u>510,876</u>
Increase (decrease) in working capital	<u>\$848,285</u>	<u>\$(148,669)</u>

12. ANTI-INFLATION ACT:

The Company is subject to, and has complied with, dividend controls imposed by the Anti-Inflation Act. Dividends on the Class B and common shares in the period from October 14, 1977 to October 13, 1978 are restricted to a maximum rate of 22.9¢ per share.



AGF Management Limited
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Stock Transfer Agent
Montreal Trust Company

Stock Exchange Listing
Toronto: Stock symbol AGFM

Auditors
Price Waterhouse & Co., Toronto

