

Notes to Consolidated Financial Statements

DECEMBER 31, 2003 AND 2002 *(In thousands of dollars, except shares and per share amounts)*

1. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results may differ from such estimates.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances.

The equity method is used to account for the Company's investment in Great-West Lifeco Inc., an affiliated company. Both companies are controlled by Power Financial Corporation.

REVENUE RECOGNITION

Management and certain administration fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Distribution revenues are recognized on a trade date basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities.

SECURITIES

Investment securities comprise debt and equity securities held for long-term investment. Bonds and debentures are carried at amortized cost plus accrued interest. Discounts or premiums on the purchase of bonds and debentures are amortized over the remaining life of the security. Common and preferred shares and all other securities are carried at original cost plus declared dividends. Securities are written down to their fair value when an other than temporary decline in value is identified. Trading securities related to the Company's derivative activities are carried at fair value.

LOANS

Loans are carried at amortized cost plus accrued interest less an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt. Once a loan is classified as impaired, any accrued and unpaid interest income is reversed and charged against interest income in the current period. Thereafter interest income is recognized on a cash basis.

The Company maintains an allowance for credit losses which is considered adequate by management to absorb all credit related losses in its portfolio. Specific allowances are established as a result of reviews of individual loans. There is a second category of allowance, designated general allowance, which is allocated against sectors rather than specifically against individual loans. This allowance is established where a prudent assessment by the Company suggests that losses may occur but where such losses cannot yet be identified on an individual loan basis.

1. Summary of significant accounting policies *(continued)*

SECURITIZATIONS

The Company periodically transfers mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. The Company also transfers NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the consolidated balance sheet and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of the Company's retained interests, quoted market prices are used if available. However, quotes are generally not available for retained interests; so the Company estimates fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are reviewed quarterly for impairment. The Company continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all transfers of loans, the gains or losses and the servicing fee revenue are reported in net investment income and other in the consolidated statements of income. The retained interests in the securitized loans are recorded in other assets and the servicing liability is recorded in other liabilities on the consolidated balance sheets.

DEFERRED SELLING COMMISSIONS

Commissions paid on the sale of certain mutual fund products are deferred and amortized against related fee income over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over the term of the deposit with a maximum amortization period of five years.

OFFICE PREMISES

Office premises, which are included in other assets, are recorded at cost of \$223,712 (2002 – \$210,757), less accumulated amortization of \$142,723 (2002 – \$118,094). The properties and related equipment and furnishings are amortized on a straight-line basis over their estimated lives.

GOODWILL AND INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3062 – Goodwill and Other Intangible Assets. Under this standard, goodwill as well as intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment and written down for impairment losses. Goodwill and intangible assets related to the acquisition of Mackenzie Financial Corporation (Mackenzie) were determined in the second quarter of 2002 after completing a comprehensive evaluation of the fair value of the assets acquired and liabilities assumed.

The Company has completed its annual impairment testing on the balance of goodwill and indefinite life intangible assets and determined that no impairment charge was necessary.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Company maintains a defined-benefit pension plan for substantially all of its eligible employees. The plan provides pensions based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method prorated on service. Pension expense or income consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on the funding excess or deficiency of the plan, and the amortization of actuarial gains or losses over the expected average remaining service life of employees. Plan assets are valued at fair value for purposes of calculating the expected long-term rate of return.

The Company also has an unfunded supplementary pension plan for certain executive officers. Pension expense related to current services is charged to income in the period during which the services are rendered.

The Company also provides certain post-retirement health care and life insurance benefits to eligible retirees. The cost of the benefits is actuarially determined and accrued using the projected benefit method prorated on service. The current cost of post-retirement health and life insurance benefits is charged to income in the period during which the services are rendered.

INCOME TAXES

The Company follows the liability method in accounting for income taxes whereby future income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are expected to be in effect when the underlying items of income or expense are expected to be realized.

EARNINGS PER SHARE

Basic earnings per share is determined by dividing net income available to common shareholders by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury method.

STOCK-BASED COMPENSATION

Effective January 1, 2002, the Company adopted the recommendations of the CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments. All stock-based payments to non-employees are accounted for using a fair value-based method of accounting. The fair value-based method of accounting is not used for stock-based compensation for employees (see Note 14).

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are utilized by the Company in the management of interest rate and equity market exposures. The Company does not utilize derivative financial instruments for speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the consolidated balance sheet to assets under management or to anticipated future transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt and mortgage banking activities. The swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate swaps as hedges of the relevant assets or relevant liabilities and accounts for these swaps that are demonstrated as effective on the accrual basis. Interest income or interest expense is adjusted to include the payments under the interest rate swaps for effective hedges of interest bearing assets and liabilities, respectively. The related amount payable to or receivable from counterparties is included in Other liabilities or Other assets, respectively.

The Company enters into equity index swaps to offset changes that affect fee income earned on its mutual fund assets under management. The swap agreements require the periodic exchange of payments based on an equity index without the exchange of the notional principal amount on which the payments are based. The Company designates its equity swap agreements as hedges of the anticipated revenue stream and accounts for them on the accrual basis. Management fee income is adjusted to include the payments made or received under the equity index swaps.

1. Summary of significant accounting policies *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The Company also manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. The Company designates these contracts as hedges of the specified securities. Any unrealized gains and losses on the forward sales and options are accounted for on the deferral basis where gains and losses, including any premiums paid or received, are recognized in Net investment income and other on a basis consistent with the related securities.

In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instruments, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

DISCLOSURE OF GUARANTEES

Effective January 1, 2003, the Company adopted the recommendations of the CICA Accounting Guideline 14 (AcG-14) – Disclosure of Guarantees, which identifies disclosure requirements for certain guarantees or groups of similar guarantees, even when the likelihood of the guarantor having to make any payments is slight.

In the normal course of operations, the Company may enter into agreements which may contain features which meet the AcG-14 definition of a guarantee, and while the maximum guarantee cannot always be determined given the nature of future events which may or may not occur, any such arrangements that are material have been previously disclosed by the Company.

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADMINISTRATION

The Company manages and administers assets owned by clients and third parties that are not reflected on the consolidated balance sheet. Mutual fund assets managed by the Company on behalf of its clients are considered assets under management. Mortgages serviced for third parties and assets administered in the Company's securities operations are considered assets under administration.

FUTURE ACCOUNTING CHANGES

Stock-based Compensation and Other Stock-based Payments

Effective January 1, 2004, CICA 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees. On January 1, 2004, the Company will adopt the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees. The impact of adopting the new recommendations in the Company's consolidated financial statements will not be material.

Hedging Relationships

Accounting Guideline 13 – Hedging Relations (AcG-13) specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation, and effectiveness of hedges and the discontinuance of hedge accounting. Subsequent to January 1, 2004, derivatives that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheets, and changes in fair value will be recorded in the consolidated statements of income. Non-qualifying derivatives will continue to be utilized on a basis consistent with the risk management policies of the Company and will be monitored by the Company for effectiveness as economic hedges even if the specific hedge accounting requirements of AcG-13 are not met. The Company has reassessed its hedging relationships as at January 1, 2004 and has determined that the impact of adopting the new recommendation will not be material.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

2. Securities

	2003		2002	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Government bonds	\$ -	\$ -	\$ 2,050	\$ 2,096
Preferred shares	2,263	2,369	11,098	11,276
Common shares	77,564	213,976	111,239	235,850
Investments in mutual funds	26,405	27,687	31,799	31,893
	\$ 106,232	\$ 244,032	\$ 156,186	\$ 281,115

	TERM TO MATURITY			2003 TOTAL	2002 TOTAL
	1 YEAR OR LESS	1 - 5 YEARS	NO SPECIFIC MATURITY		
Government bonds	\$ -	\$ -	\$ -	\$ -	\$ 2,050
Preferred shares	2,263	-	-	2,263	11,098
Common shares	-	-	77,564	77,564	111,239
Investments in mutual funds	-	-	26,405	26,405	31,799
	\$ 2,263	\$ -	\$ 103,969	\$ 106,232	\$ 156,186

3. Loans

	TERM TO MATURITY			2003 TOTAL	2002 TOTAL
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS		
Residential mortgages	\$ 138,091	\$ 202,114	\$ 6,271	\$ 346,476	\$ 362,934
Commercial mortgages	3,969	12,987	-	16,956	21,367
	142,060	215,101	6,271	363,432	384,301
Personal loans	53,776	111,626	20,673	186,075	186,210
	\$ 195,836	\$ 326,727	\$ 26,944	549,507	570,511
Less: General allowance				21,495	21,542
				\$ 528,012	\$ 548,969
Impaired loans included above				\$ 2,192	\$ 2,158
Less: General allowance				21,495	21,542
				\$ (19,303)	\$ (19,384)

The change in the allowance for credit losses is as follows:

Balance, beginning of year	\$ 21,542	\$ 21,321
Write-offs	(121)	(1,460)
Recoveries	214	799
Provision for credit losses	(140)	882
Balance, end of year	\$ 21,495	\$ 21,542

4. Securitizations

	2003		2002	
	PRINCIPAL AMOUNT SECURITIZED	NET GAIN	PRINCIPAL AMOUNT SECURITIZED	NET GAIN
Residential mortgages	\$ 121,604	\$ 1,412	\$ 131,103	\$ 1,974
NHA-insured mortgages	\$ 5,727	\$ 3	\$ 57,772	\$ 353
Personal loans	—	—	\$ 32,153	\$ 1,670

The Company's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related commercial paper conduits and mortgage-backed securities holders (the Purchasers). The Purchasers do not have recourse to the Company's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for transactions completed during 2003 and 2002 were as follows:

2003	RESIDENTIAL MORTGAGES	NHA INSURED MORTGAGES
	Weighted-average	
Remaining service life (in years)	2.4	5.0
Interest rate	5.25%	4.93%
Coupon rate of securities issued	4.29%	4.32%
Prepayment rate	15.00%	—% ⁽¹⁾
Discount rate	5.15%	4.60%
Servicing fees	0.25%	0.15%
Expected credit losses	0.05%	—

⁽¹⁾NHA insured mortgages securitized by the Company had no prepayment privileges.

2002	RESIDENTIAL MORTGAGES	NHA INSURED MORTGAGES	PERSONAL LOANS
	Weighted-average		
Remaining service life (in years)	2.0	5.6	n/a
Interest rate	5.61%	5.82%	Prime +1%
Coupon rate of securities issued	4.43%	4.92%	2.24%
Prepayment rate	15.00%	6.00%	10.00%
Discount rate	5.33%	5.16%	9.04%
Servicing fees	0.25%	0.21%	0.15%
Expected credit losses	0.05%	—	0.15%

At December 31, 2003, the current fair value of retained interests was \$12,616 (2002 – \$14,982). The sensitivity to immediate 10% and 20% adverse changes to key assumptions was considered to be immaterial.

The total loans reported on the Company's consolidated balance sheets, the securitized loans serviced by the Company, as well as cash flows related to securitization arrangements are as follows:

	2003	2002
Mortgages	\$ 980,792	\$ 1,153,048
Personal loans	216,416	235,994
	1,197,208	1,389,042
Less: Securitized loans serviced	669,196	840,073
Total on-balance sheet loans	\$ 528,012	\$ 548,969
Proceeds from new securitizations	\$ 126,747	\$ 217,443
Cash flows received on retained interests	\$ 5,919	\$ 3,997

5. Investment in affiliate

The Company holds a 4.2% equity interest in Great-West Lifeco Inc. (Lifeco).

	2003	2002
Carrying value, beginning of year	\$ 320,988	\$ 297,810
Investment	100,000	-
Share of earnings	54,505	38,516
Dividends	(19,818)	(15,338)
Dilution gain	14,820	-
Foreign currency translation adjustments	(9,840)	-
Carrying value, end of year	\$ 460,655	\$ 320,988
Fair value, end of year	\$ 859,663	\$ 604,605

On July 10, 2003, the Company purchased, by way of private placement, 2,662,690 common shares of Lifeco, an affiliate of the Company, for total consideration of \$100 million in support of Lifeco's acquisition of Canada Life Financial Corporation (Canada Life). The Company currently holds 18,893,694 shares of Lifeco, which represents an equity interest of 4.2%.

As a result of this investment and the common shares issued by Lifeco as part of its acquisition of Canada Life, a dilution gain of \$14.8 million (net of \$6.7 million of goodwill disposed) was recognized in 2003.

6. Other assets

	2003	2002
Accounts and other receivables	\$ 155,892	\$ 155,299
Office premises	80,989	92,663
Accrued pension asset (Note 10)	40,892	39,919
Other	56,052	49,075
	\$ 333,825	\$ 336,956

7. Goodwill and intangible assets

During the second quarter of 2002, the Company completed a comprehensive evaluation of the fair value of the assets acquired and liabilities assumed on the acquisition of Mackenzie in 2001. The amount assigned to intangible assets represents the fair value of mutual fund management contracts and trade names acquired. Both of these intangible assets have indefinite useful lives and are therefore not subject to amortization.

Changes in the Company's goodwill and intangible assets are as follows:

	2003	2002
Goodwill		
Carrying value, beginning of year	\$ 2,265,665	\$ 3,020,922
Reclassification between goodwill and intangible assets	–	(859,948)
Reclassification between goodwill and future income taxes	–	130,153
Goodwill acquired during the year	4,170	–
Goodwill disposed of during the year	–	(25,462)
Carrying value, end of year	\$ 2,269,835	\$ 2,265,665
Allocated to reportable segments as follows:		
Investors Group	\$ 1,346,245	\$ 1,346,245
Mackenzie	923,590	919,420
	\$ 2,269,835	\$ 2,265,665
Intangible assets		
Carrying value, beginning of year	\$ 859,948	\$ –
Reclassified from goodwill		
Mutual fund management contracts	–	591,580
Trade names	–	268,368
Carrying value, end of year	\$ 859,948	\$ 859,948
Total carrying value, end of year	\$ 3,129,783	\$ 3,125,613

At December 31, 2002, the Company owned 69.1% of the common shares of Winfund Software Corp. (Winfund). On February 26, 2003, the Company acquired the remaining outstanding common shares of Winfund for total cash consideration of \$4,733. In the second quarter of 2003, the Company completed the evaluation of the fair value of the net assets acquired. The excess of the consideration paid over the fair value of the identifiable net assets acquired of \$4,170 has been recorded as goodwill and has been allocated to the Mackenzie reportable segment.

8. Deposits and certificates

Included in the assets of the consolidated balance sheets are cash and investments amounting to \$729,456 (2002 – \$709,012) held in trust and set aside in respect of the deposits of Investors Group Trust Co. Ltd., The Trust Company of London Life and M.R.S. Trust Company, and the certificates issued by Investors Syndicate Limited.

	TERM TO MATURITY				2003 TOTAL	2002 TOTAL
	DEMAND	1 YEAR OR LESS	1 – 5 YEARS	OVER 5 YEARS		
Deposits	\$ 457,433	\$ 105,530	\$ 153,168	\$ 3,814	\$ 719,945	\$ 697,992
Certificates	–	1,056	3,453	5,002	9,511	11,020
	\$ 457,433	\$ 106,586	\$ 156,621	\$ 8,816	\$ 729,456	\$ 709,012

9. Other liabilities

	2003	2002
Accounts payable and accrued liabilities	\$ 198,654	\$ 202,981
Taxes payable	98,628	77,036
Dividends and interest payable	81,996	80,332
Restructuring costs	56,337	105,665
Accrued employee benefit obligations <i>(Note 10)</i>	42,199	39,977
Deferred revenue	13,849	13,950
Other	71,157	119,935
	\$ 562,820	\$ 639,876

10. Pension plans and other post-retirement benefits

EMPLOYEE PENSION PLAN

The Company maintains a defined benefit pension plan which covers substantially all of its eligible employees. Changes in the fair value of plan assets and the accrued pension obligation are as follows:

	2003	2002
Fair value of plan assets		
Balance, beginning of year	\$ 140,325	\$ 142,581
Employee contributions	2,568	2,529
Benefits paid	(6,059)	(7,204)
Return on plan assets	17,933	2,419
Balance, end of year	154,767	140,325
Accrued benefit obligation		
Balance, beginning of year	94,656	84,250
Benefits paid	(6,059)	(7,204)
Current service cost	3,044	2,953
Employee contributions	2,568	2,529
Interest cost	6,758	5,986
Actuarial losses	5,606	6,142
Balance, end of year	106,573	94,656
Funded status – plan surplus	48,194	45,669
Unamortized net actuarial gains	(7,302)	(5,750)
Accrued pension asset	\$ 40,892	\$ 39,919
Pension income was determined as follows:		
Current service cost	\$ 3,044	\$ 2,953
Interest cost	6,758	5,986
Expected return on plan assets	(9,701)	(9,817)
Amortization of net actuarial gains	(1,075)	(2,209)
	\$ (974)	\$ (3,087)
Significant weighted-average actuarial assumptions:		
Discount rate	6.60%	6.95%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	6.10%	6.10%

10. Pension plans and other post-retirement benefits *(continued)*

SUPPLEMENTARY EMPLOYEE RETIREMENT PLAN

The Company maintains an unfunded supplementary pension plan for certain executive officers.

	2003	2002
Accrued benefit obligation	\$ 11,515	\$ 10,476
Unamortized actuarial gains	1,935	2,833
Accrued benefit liability, end of year	\$ 13,450	\$ 13,309
Pension expense	\$ 863	\$ 1,585
Significant weighted-average actuarial assumptions:		
Discount rate	6.50%	6.88%
Rate of compensation increase	6.10%	6.10%

POST-RETIREMENT BENEFIT PLANS

The Company also provides certain unfunded post-retirement health care and life insurance benefits to eligible retirees.

	2003	2002
Accrued benefit liability		
Balance, beginning of year	\$ 23,681	\$ 20,733
Benefits paid	(914)	(879)
Current service cost	1,490	1,325
Interest cost	1,730	1,567
Actuarial losses	4,342	935
	30,329	23,681
Unamortized actuarial (losses) gains	(1,580)	2,987
Balance, end of year	\$ 28,749	\$ 26,668
Benefit expense was determined as follows:		
Current service cost	\$ 1,490	\$ 1,325
Interest cost	1,730	1,567
Amortization of net actuarial gains	(225)	(283)
	\$ 2,995	\$ 2,609
Significant weighted-average actuarial assumptions:		
Discount rate	6.75%	7.00%
Medical trend rate	11.00%	5.60%

The medical trend rate is expected to decline to 5.0% annually in 2010.

11. Income taxes

The Company's effective income tax rate is derived as follows:

	2003	2002
Income taxes at federal and provincial statutory rates	37.92%	40.46%
Effect of:		
Dividend income	(0.24)	(0.33)
Net capital gains and losses	(0.86)	(0.05)
Dilution gain <i>(Note 5)</i>	(0.69)	-
Share of earnings of affiliate <i>(Note 5)</i>	(2.49)	(1.94)
Impact of rate changes on future income taxes related to indefinite life intangibles	2.89	-
Tax on large corporations	0.02	0.02
Lower effective rate of tax on income not subject to tax in Canada and other items	(1.72)	0.19
Effective income tax rate	34.83%	38.35%
Components of income tax expense are:		
Current income taxes	\$ 225,870	\$ 263,254
Future income taxes	73,328	54,147
	\$ 299,198	\$ 317,401

Future income taxes consist of the following taxable temporary differences:

	2003	2002
Future income tax assets		
Restructuring costs	\$ 20,478	\$ 40,703
Accrued employee benefit obligations	16,269	14,974
Investment revaluations	10,206	9,935
Deferred revenue	6,373	7,664
Other	110,674	49,756
	164,000	123,032
Future income tax liabilities		
Deferred selling commissions	275,194	258,161
Intangible assets	155,006	130,153
Other	108,872	36,462
	539,072	424,776
Future income taxes	\$ 375,072	\$ 301,744

12. Long-term debt

	RATE	MATURITY	2003	2002
Debentures in Series ^(a)				
1997	6.65%	December 13, 2027	\$ 125,000	\$ 125,000
2001	6.75%	May 9, 2011	450,000	450,000
2001	7.45%	May 9, 2031	150,000	150,000
2002	7.00%	December 31, 2032	175,000	175,000
2003	6.58%	March 7, 2018	150,000	–
2003	7.11%	March 7, 2033	150,000	–
Notes payable to related parties				
Quadrus Investment Services Ltd.	–	December 31, 2003	–	6,000
Power Financial Corporation	10.60%	January 16, 2006	28,580	30,365
Floating Bankers' Acceptance ^(b)				
	–	May 30, 2006	175,000	450,000
			\$ 1,403,580	\$ 1,386,365

^(a)The debentures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

^(b)A syndicate of banks provided the Company with a non-revolving credit facility bearing interest that fluctuates with Canadian bankers' acceptances. In 2003, the Company repaid \$275,000 of this credit facility.

Interest expense relating to long-term debt was \$93,563 (2002 – \$81,650).

The annual principal payments in each of the next five years are: 2004 – \$1,785; 2005 – \$1,785; 2006 – \$200,010; 2007 – nil; and 2008 – nil.

13. Share capital

AUTHORIZED

Unlimited number of:

- First preferred shares, issuable in series
- Second preferred shares, issuable in series
- Class 1 non-voting shares
- Common shares

ISSUED AND OUTSTANDING

	2003		2002	
	SHARES	STATED VALUE	SHARES	STATED VALUE
First preferred shares, Series A	14,400,000	\$ 360,000	14,400,000	\$ 360,000
Common shares				
Balance, beginning of year	263,845,333	\$ 1,441,063	263,081,731	\$ 1,431,163
Issued under Stock Option Plan	356,758	5,614	763,602	9,900
Purchased for cancellation	(112,300)	(614)	–	–
Balance, end of year	264,089,791	\$ 1,446,063	263,845,333	\$ 1,441,063

PREFERRED SHARES

The preferred shares are entitled to a fixed 5.75% annual non-cumulative dividend payable quarterly. Such shares are redeemable by the Company on or after June 30, 2009 in cash, at \$26.00 per share if redeemed prior to June 30, 2010, \$25.67 if redeemed on or after June 30, 2010, but prior to June 30, 2011, \$25.33 if redeemed on or after June 30, 2011, but prior to June 30, 2012 and \$25.00 if redeemed on or after June 30, 2012. On or after June 30, 2009, the Company may convert each preferred share into that number of common shares determined by dividing the then applicable redemption price by the greater of \$2.00 and 95% of the weighted-average trading price of the common shares at such time. On or after June 30, 2013, subject to the right of the Company to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing \$25.00 by the greater of \$2.00 and 95% of the weighted-average trading price of the common shares at such time.

NORMAL COURSE ISSUER BID

The Company commenced a normal course issuer bid, effective for one year, on February 22, 2003. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares as at January 31, 2003. As at December 31, 2003, 112,300 shares were purchased at a cost of \$2,741 and the premium paid to purchase the shares was charged to retained earnings. On February 22, 2002, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.2 million or 5% of its common shares outstanding as at January 31, 2002. There were no purchases under this bid during 2002.

14. Stock-based compensation

STOCK OPTION PLAN

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to designated officers, employees and financial planning consultants at prices not less than the market price of such shares immediately prior to the grant date. The options are subject to time and/or performance vesting conditions set out at the grant date and are exercisable no later than 10 years after the grant date.

In 2002, the Company's Plan was amended to provide that an additional 15,000,000 common shares of the Company be reserved for issuance under the Plan. At December 31, 2003, 18,908,341 (2002 – 19,265,099) common shares were reserved for issuance under the Plan. Any consideration paid on exercise of stock options to purchase stock is credited to share capital.

During the year ended December 31, 2003, the Company issued 1,450,594 options to employees and 86,500 options to non-employees. A portion of the options granted to employees are subject to performance targets. The fair value of options granted has been estimated at \$5.34 per option using the Black-Scholes option pricing model, based on the following assumptions: (i) risk-free interest rate of 4.58%, (ii) expected option life of six years, (iii) expected volatility of 25.00% and (iv) expected dividend yield of 3.70%.

The Company recorded compensation expense of \$171 (2002 – \$101) for the year ended December 31, 2003 for options issued to non-employees.

If the Company had used the fair value method of accounting for stock options granted to employees, the Company's results would have been as follows:

Proforma net income available to common shareholders	\$ 538,010
Proforma earnings per common share – basic	\$ 2.039
Proforma earnings per common share – diluted	\$ 2.029

14. Stock-based compensation *(continued)*

STOCK OPTION PLAN *(continued)*

	2003		2002	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	5,536,834	\$ 19.55	6,389,231	\$ 18.65
Granted	1,537,094	25.72	106,740	27.81
Exercised	(356,758)	15.73	(763,602)	12.96
Cancelled	(414,147)	20.54	(195,535)	20.35
Balance, end of year	6,303,023	\$ 21.21	5,536,834	\$ 19.55
Exercisable, end of year	2,292,297	\$ 18.99	1,636,995	\$ 17.32

Options outstanding at December 31, 2003	EXPIRY DATE	EXERCISE PRICE \$	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2005	8.66	262,141	262,141
	2006	8.89	–	–
	2007	12.98–13.54	106,440	106,440
	2008	18.85–20.99	97,400	97,400
	2009	18.99–24.27	674,500	566,500
	2010	17.00	66,900	35,700
	2011	19.83–22.78	3,498,549	1,204,834
	2012	27.81	103,740	19,282
	2013	25.66–28.66	1,493,353	–
			6,303,023	2,292,297

SHARE PURCHASE PLANS

Under the Company's share purchase plans, eligible employees and financial planning consultants can choose each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in non-commission expense as paid and totalled \$3,030 (2002 – \$3,433).

15. Off-balance sheet financial instruments

The Company enters into derivative contracts which are negotiated in the over-the-counter market with Schedule I and Schedule II Chartered bank counterparties on a diversified basis. In all cases the derivative contracts are used for non-trading purposes and they are designated as hedges. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Interest rate swaps are used for the purpose of asset and liability management to manage interest rate risk. Equity index swaps are contractual agreements to exchange payments based on a specified notional amount and the stock market index reference for a specific period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific securities at a fixed price at a future date. Forward sales are contractual agreements to sell a financial instrument on a future date at a specified price. Equity index swaps, options and forward sales are used to manage equity market risk through hedging activities that are designed to offset changes in the equity markets that affect income earned on the Company's securities and on the Company's assets under management.

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. This represents only a small percentage of the notional amount. The credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this does not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

The following table summarizes the Company's off-balance sheet financial instruments at December 31:

2003	NOTIONAL AMOUNT			CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
	1 YEAR OR LESS	1 - 5 YEARS	TOTAL		
Swaps	\$ 100,000	\$ 150,500	\$ 250,500	\$ -	\$ (7,502)
Options purchased	14,571	47,515	62,086	770	770
Options written	17,528	60,470	77,998	-	(13,039)
Forward sales	-	16,545	16,545	1,404	(391)
	\$ 132,099	\$ 275,030	\$ 407,129	\$ 2,174	\$ (20,162)
2002					
Swaps	\$ 71,000	\$ 560,300	\$ 631,300	\$ -	\$ (21,541)
Options purchased	22,129	62,086	84,215	6,005	6,005
Options written	23,473	77,998	101,471	-	(9,626)
Forward sales	-	16,545	16,545	3,837	3,753
	\$ 116,602	\$ 716,929	\$ 833,531	\$ 9,842	\$ (21,409)

16. Fair value of financial instruments

The following table presents the fair value of on and off-balance sheet financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties under no compulsion to act and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2003		2002	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 969,315	\$ 969,315	\$ 771,522	\$ 771,522
Securities	106,232	244,032	156,186	281,115
Loans	528,012	531,142	548,969	555,508
Accounts and other receivables	155,892	155,892	155,299	155,299
Total financial assets	\$ 1,759,451	\$ 1,900,381	\$ 1,631,976	\$ 1,763,444
Liabilities				
Deposits and certificates	\$ 729,456	\$ 738,454	\$ 709,012	\$ 718,155
Other financial liabilities	450,343	450,343	548,377	548,377
Long-term debt	1,403,580	1,518,823	1,386,365	1,429,178
Total financial liabilities	\$ 2,583,379	\$ 2,707,620	\$ 2,643,754	\$ 2,695,710
Derivatives (Note 15)	\$ -	\$ (20,162)	\$ -	\$ (21,409)

16. Fair value of financial instruments *(continued)*

Fair value is determined using the following methods and assumptions:

- The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, accounts and other receivables, and other financial liabilities.
- Securities are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used.
- Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk.
- Deposits and certificates are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is determined by reference to current market prices for debentures and notes payable with similar terms and risks.
- Derivative financial instruments' fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

17. Earnings per common share

	2003	2002
Earnings		
Income before discontinued operations	\$ 559,781	\$ 509,948
Discontinued operations	–	1,811
Net income	559,781	511,759
Preferred dividends	20,700	20,700
Net income available to common shareholders	\$ 539,081	\$ 491,059
Number of common shares <i>(in thousands)</i>		
Average number of common shares outstanding	263,915	263,487
Add:		
– Potential exercise of outstanding stock options	1,259	1,386
Average number of common shares outstanding – diluted basis	265,174	264,873
Earnings per common share <i>(in dollars)</i>		
Basic		
Excluding discontinued operations	\$ 2.043	\$ 1.857
Including discontinued operations	\$ 2.043	\$ 1.864
Diluted		
Excluding discontinued operations	\$ 2.033	\$ 1.847
Including discontinued operations	\$ 2.033	\$ 1.854

In certain circumstances, the preferred shares referred to in Note 13 are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as the Company has the option to settle in cash instead of shares.

18. Commitments

The Company is committed to the following annual lease payments under its operating leases: 2004 – \$36,621; 2005 – \$31,805; 2006 – \$26,941; 2007 – \$23,926 and 2008 – \$19,614.

19. Related party transactions

The Company enters into transactions with The Great-West Life Assurance Company (Great-West) and London Life Insurance Company (London Life), subsidiaries of its affiliate, Lifeco. These transactions are in the normal course of operations and at market terms and conditions.

During 2003 and 2002, the Company provided to and received from Great-West, a member of the Power Financial Corporation group of companies, certain administrative services. The Company distributes life insurance and disability insurance products under a distribution agreement with Great-West and received \$17,709 in distribution fees (2002 – \$17,082). London Life distributes certain mutual funds of the Company.

During 2003, the Company sold residential mortgage loans to Great-West and London Life for \$160,742 (2002 – \$200,088).

During 2003, Mackenzie Financial Corporation (Mackenzie), a subsidiary of the Company, entered into an arrangement involving entities managed by Mackenzie. As part of this arrangement, the parties have the legal right and intend to settle on a net basis certain related party financial assets and liabilities. These assets and liabilities, which totalled \$2.2 billion at December 31, 2003, have been offset and, accordingly, have no impact on the consolidated balance sheets. Mackenzie earned investment income of \$814 and incurred expenses of \$814 related thereto.

20. Segmented information

Investors Group and Mackenzie earn fee-based revenues in the conduct of their core business activities which are primarily related to the distribution, management and administration of their mutual funds. Fee revenues are also derived from the provision of brokerage services. Intermediary revenues are derived primarily from the assets funded by deposit and certificate products and from mortgage banking and servicing activities. In addition, Investors Group earns fee revenue from the distribution of insurance products.

Corporate and Other includes primarily net investment income on unallocated investments and interest expense on corporate debt.

2003	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Total assets under management and administration:	\$ 43,276,465	\$ 39,578,560	\$ 700,872	\$ 83,555,897
Income	\$ 1,075,566	\$ 762,709	\$ 35,906	\$ 1,874,181
Expenses	427,138	541,282	1,057	969,477
Earnings before undernoted	\$ 648,428	\$ 221,427	\$ 34,849	904,704
Restructuring reversal				24,832
Interest expense				(85,377)
				844,159
Dilution gain				14,820
Income before income taxes and discontinued operations				858,979
Income taxes				299,198
Net income				559,781
Preferred dividends				20,700
Net income available to common shareholders				\$ 539,081

20. Segmented information *(continued)*

2002	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Total assets under management and administration:	\$ 39,678,103	\$ 35,281,603	\$ 648,644	\$ 75,608,350
Income	\$ 1,130,042	\$ 801,197	\$ 8,476	\$ 1,939,715
Expenses	449,581	583,271	–	1,032,852
Earnings before undernoted	\$ 680,461	\$ 217,926	\$ 8,476	906,863
Interest expense				(79,514)
Income before income taxes and discontinued operations				827,349
Income taxes				317,401
Income before discontinued operations				509,948
Discontinued operations				1,811
Net income				511,759
Preferred dividends				20,700
Net income available to common shareholders				\$ 491,059

21. Restructuring

Following the acquisition of Mackenzie, the Company commenced the integration and rationalization of its administration, systems and operations. The restructuring costs related primarily to severance and related expenses, contract termination costs, decommissioning of systems and other expenses.

In the fourth quarter, the Company changed its estimate for restructuring, resulting in a \$24.8 million reversal. The change in estimate resulted from facts and circumstances occurring subsequent to the original charges.

	2003	2002
Balance at beginning of year	\$ 69,786	\$ 85,242
Utilized during the year	(6,617)	(15,456)
Change in estimate	(24,832)	–
Balance at end of year	\$ 38,337	\$ 69,786

Of the \$38.3 million balance, \$9.6 million relates to termination benefits, \$7.5 million relates to contract termination costs and the remaining \$21.1 million relates to decommissioning of systems and other expenses. The balance includes \$14.9 million in liabilities related to completed activities and \$23.4 million related to projects in progress.

22. Discontinued operations

On August 29, 2002 (measurement date), Mackenzie and its majority-owned (85.7%) subsidiary, Mackenzie Investment Management, Inc. (Mackenzie Investment), a U.S. financial services company, entered into an agreement to sell Mackenzie Investment to Waddell & Reed Financial, Inc. On December 16, 2002 (disposal date), Mackenzie completed the sale. The disposition was made for proceeds of \$94,674, net of the amount allocated to non-controlling interest, resulting in a net gain of \$1,973. The gain on sale includes the recognition of the cumulative foreign currency translation adjustment at the disposal date of \$1,085 and the results of operations between the measurement date and disposal date.

	2003	2002
Revenue	\$ –	\$ 29,822
Loss from operations	–	(162)
Net gain on sale of discontinued operations	–	1,973
Discontinued operations	\$ –	\$ 1,811