



view  
for the long term

IGM FINANCIAL INC.

THIRD QUARTER REPORT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

3

## QUARTERLY REPORT TO SHAREHOLDERS

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### FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company action, is also a forward-looking statement. 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 the Company, 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 the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements.

### NON-GAAP FINANCIAL MEASURES

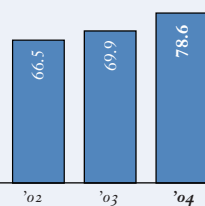
This report may contain non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include but are not limited to "Net income, diluted earnings per share and return on common equity excluding a dilution gain", "Earnings before interest and taxes" (EBIT) and "Earnings before interest, taxes, depreciation and amortization" (EBITDA). Non-GAAP financial measures are used to provide management, investors and investment analysts with additional measures to assess earnings performance.

However, these non-GAAP financial measures do not have a standard meaning and are not directly comparative to similar measures used by other companies and may not be directly comparable to any prescribed GAAP measure.

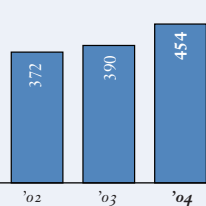
# Financial Highlights

	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2004	2003	CHANGE	2004	2003	CHANGE
<b>Net income available to common shareholders</b> (\$ millions)						
Excluding dilution gain <sup>(1)</sup>	\$ 153.8	\$ 140.6	9.4%	\$ 454.3	\$ 389.7	16.6%
Including dilution gain	153.8	155.4	(1.0)	454.3	404.5	12.3
<b>Diluted earnings per share</b>						
Excluding dilution gain <sup>(1)</sup>	0.58	0.53	9.4	1.71	1.47	16.3
Including dilution gain	0.58	0.59	(1.7)	1.71	1.53	11.8
<b>Return on equity</b>						
Excluding dilution gain <sup>(1)</sup>				19.7%	18.7%	
Including dilution gain				19.7%	19.4%	
<b>Dividends per share</b>	0.300	0.255	17.6	0.850	0.735	15.6
(\$ millions)						
<b>Mutual funds</b>						
<b>Investors Group</b>						
Sales	\$ 995	\$ 888	12.0%	\$ 3,620	\$ 3,024	19.7%
Net sales (redemptions)	(52)	(284)	81.7	264	(746)	N/M
Assets under management				42,296	38,448	10.0
<b>Mackenzie</b>						
Sales	1,438	1,124	27.9	5,092	3,664	39.0
Net sales (redemptions)	110	(39)	N/M	672	(258)	N/M
Assets under management				34,979	31,498	11.1
<b>Investment Planning Counsel<sup>(2)</sup></b>						
Sales	90	–	N/A	161	–	N/A
Net sales	60	–	N/A	109	–	N/A
Assets under management				1,359	–	N/A
<b>Combined mutual fund assets under management<sup>(3)</sup></b>				78,605	69,946	12.4
<b>Insurance in force</b> (face amount)				35,217	30,296	16.2
<b>Securities operations assets under administration</b>				6,618	5,347	23.8
<b>Mortgages serviced</b>				6,102	6,529	(6.5)
<b>Deposits and certificates</b>				669	714	(6.3)
<b>Consultants – Investors Group</b>				3,391	3,192	6.2%
<b>Employees</b>				3,171	3,039	4.3
<b>Financial Planning Centres</b>				112	110	1.8

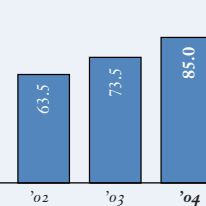
**MUTUAL FUND ASSETS UNDER MANAGEMENT**  
As at September 30 (\$ billions)



**NET INCOME**  
For the nine months ended September 30 (\$ millions)



**DIVIDENDS PER SHARE**  
For the nine months ended September 30 (cents)



2003 excludes dilution gain<sup>(1)</sup>

<sup>(1)</sup> **Non-GAAP Financial Measures**

Refer to Management's Discussion and Analysis on page 5 for an explanation of the Company's use of non-GAAP financial measures.

<sup>(2)</sup> From date of acquisition or as at September 30, 2004

<sup>(3)</sup> Adjusted for \$29 million in inter-segment assets

# Report to Shareholders

## TO OUR SHAREHOLDERS

Interim consolidated financial statements for the nine and three months ended September 30, 2004 are presented with this report.

## FINANCIAL RESULTS

Net income attributable to common shareholders for the nine months ended September 30, 2004 was \$454.3 million compared to \$389.7 million in 2003, excluding a dilution gain in 2003 as noted below. Earnings per share were \$1.71 compared with \$1.47 in 2003, an increase of 16.3%.

For the three months ended September 30, 2004 net income attributable to common shareholders was \$153.8 million compared to \$140.6 million in 2003, excluding the dilution gain in 2003. Earnings per share were 58 cents compared with 53 cents in 2003, an increase of 9.4%.

Net income and earnings per share for the nine and three months ended September 30, 2003 exclude a dilution gain of \$14.8 million resulting from the reduction in the Company's percentage ownership of Great-West Lifeco Inc. related to their acquisition of Canada Life. Net income attributable to common shareholders for the nine and three months ended September 30, 2003 including the dilution gain noted above was \$404.5 million and \$155.4 million respectively. Earnings per share were \$1.53 and \$0.59 for the nine and three month periods ending September 30, 2003.

Gross revenues for the first nine months for 2004 were \$1.6 billion, compared to \$1.4 billion last year. Gross revenues for the third quarter were \$527.1 million

compared to \$474.4 million in the prior year. Operating expenses were \$898.9 million for the nine months and \$300.6 million for the quarter compared with \$784.3 million and \$258.7 million respectively in 2003.

Mutual fund assets under management at September 30, 2004 totalled \$78.6 billion, including \$1.3 billion held by Counsel Group of Funds Inc., a wholly owned subsidiary of recently acquired Investment Planning Counsel. This compares to \$69.9 billion at September 30, 2003, an increase of 12.4%.

## INVESTORS GROUP OPERATIONS

Year-to-date mutual fund sales were \$3.6 billion compared to \$3.0 billion in the prior year and net sales were \$264 million, compared to last year's net redemptions of \$746 million. Net sales of long-term funds (excluding money market funds) were \$146 million compared to net redemptions of \$719 million last year.

Investors Group recorded mutual fund sales of \$995 million for the third quarter, compared to \$888 million in the prior year. For the quarter, mutual fund net redemptions were \$52 million compared to net redemptions of \$284 million in 2003 and net redemptions of long-term funds were \$96 million compared to net redemptions of \$276 million in 2003.

Redemption rates (excluding money market funds) were 9.2% at the end of the quarter, down from 11.4% at the same time last year. The corresponding rate at September 30, 2004 for all other members of the Investment Funds Institute of Canada (IFIC) was 15.0%.

On a year-to-date basis, insurance sales were up 2.1% from last year while mortgage originations increased 9.4%. External assets gathered into the securities operations were up 1.1% from the same time last year.

Investors Group's mutual fund assets at September 30, 2004 were \$42.3 billion, an increase of 10.0%, compared to \$38.4 billion at September 30, 2003.

The number of Investors Group Consultants was 3,391 at September 30, 2004 compared to 3,223 at year-end.

#### MACKENZIE FINANCIAL OPERATIONS

Year-to-date mutual fund sales were \$5.1 billion compared to \$3.7 billion in the prior year and net sales were \$672 million compared to last year's net redemptions of \$258 million. Net sales of long-term funds (excluding money market and managed yield funds) were \$730 million for the period compared with net sales of \$17 million in 2003.

Mackenzie recorded sales of mutual funds of \$1.4 billion for the quarter compared to \$1.1 billion last year. Mutual fund net sales for the period were \$110 million, compared to net redemptions of \$39 million in the prior year. Net sales of long-term funds (excluding money market and managed yield funds) were \$133 million for the period, compared with net sales of \$17 million in 2003.

Mackenzie's redemption rate for long-term funds was 13.7% at the end of September 2004, compared to 12.5% at the end of September 2003. The corresponding rate at September 30, 2004 for all other members of IFIC was 14.5%.

Mackenzie's mutual fund assets under management at September 30, 2004 were \$35.0 billion, compared to \$31.5 billion one year ago.

#### INDUSTRY OVERVIEW

Individual Canadians have remained cautious with respect to their investing activities, with net flows in the mutual fund industry directed primarily towards income-oriented funds. Industry net sales of mutual funds trended down during the quarter, with September ending in net redemptions. According to IFIC, industry net sales for the third quarter of 2004 were \$17 million, compared with net sales of \$245 million for the same quarter a year ago. IFIC reports that total assets under management as at September 30, 2004 were \$470.5 billion, up 15% from the same period in 2003, with assets decreasing by \$5.6 billion during the quarter.

#### DIVIDENDS

The Board of Directors has declared a quarterly dividend of \$0.359375 on the Company's 5.75% Non-Cumulative First Preferred Shares, Series "A" payable on December 31, 2004 to shareholders of record on November 29, 2004 and has declared a quarterly dividend of 30 cents per share on the Company's common shares payable January 31, 2005 to shareholders of record on December 31, 2004.

On behalf of the Board of Directors,



R. Jeffrey Orr  
*President and Chief Executive Officer*  
 Winnipeg, Canada  
 October 29, 2004

## Management's Discussion and Analysis

*The Management's Discussion and Analysis (MD&A) presents management's view of the operations and financial condition of IGM Financial Inc. (the Company) as at and for the three and nine months ended September 30, 2004, compared with the same periods in 2003, and should be read in conjunction with the 2003 Investors Group Inc. Annual Report, the enhanced Investors Group Inc. MD&A dated January 29, 2004 filed on [www.sedar.com](http://www.sedar.com) in May, 2004 and the 2004 First and Second Quarter Reports to Shareholders. Commentary in the MD&A as at and for the three and nine months ended September 30, 2004 is as of October 29, 2004.*

### FORWARD-LOOKING INFORMATION

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## IGM Financial Inc.

### Change to Corporate Name

During the second quarter, the Company received shareholder and regulatory approval to change its name from Investors Group Inc. to IGM Financial Inc.

## Summary of Consolidated Operating Results

For the three months ended September 30, 2004 net income attributable to common shareholders was \$153.8 million compared to \$140.6 million in 2003, excluding the dilution gain as noted below. Earnings per share on this basis were 58 cents compared with 53 cents in 2003, an increase of 9.4%.

Net income attributable to common shareholders for the nine months ended September 30, 2004 was \$454.3 million compared to \$389.7 million in 2003, excluding the dilution gain as noted below. Earnings per share on this basis were \$1.71 compared with \$1.47 in 2003, an increase of 16.3%.

Net income and earnings per share for the three and nine months ended September 30, 2003 exclude a dilution gain of \$14.8 million resulting from the reduction in the Company's percentage ownership of Great-West Lifeco Inc. (GWL) related to their acquisition of Canada Life.

Net income attributable to common shareholders in accordance with Canadian generally accepted accounting principles (GAAP) for the three and nine months ended September 30, 2003, which includes the dilution gain noted above, was \$155.4 million and \$404.5 million respectively. Earnings per share were \$0.59 and \$1.53 for the three and nine month periods ending September 30, 2003.

Shareholders' equity was \$3.46 billion as at September 30, 2004, up from \$3.22 billion at December 31, 2003. Return on average common equity for the nine months ended September 30, 2004 was 19.7% compared with 18.7% in 2003. The quarterly dividend per common share was 30 cents in the third quarter, up from 27.5 cents in the second quarter of 2004.

#### NON-GAAP FINANCIAL MEASURES

Net income, diluted earnings per share (EPS) and return on common equity (ROE) for the quarter and nine months ended September 30, 2003 excludes the dilution gain relating to GWL. These non-GAAP financial measures are used to provide management and investors with additional measures to assess earnings performance. However, these non-GAAP financial measures do not have standard meanings and are not directly comparable to similar measures used by other companies. Table 1 reconciles non-GAAP results to results as reported in the interim consolidated financial statements and notes in accordance with GAAP for net income and earnings per share.

Earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA) are also non-GAAP financial measures. EBIT is an alternative measure of performance utilized by management to measure and evaluate the results of its reportable segments as shown in Table 2 and as discussed later in the MD&A. EBITDA is an alternative measure of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results and is discussed further on page 16 of the MD&A. These non-GAAP financial measures do not have standard meanings and are not directly comparable to any GAAP measure or to similar measures used by other companies.

#### REPORTABLE SEGMENTS

The Company's reportable segments, which reflect the current organizational structure, are:

- Investors Group
- Mackenzie
- Corporate and Other.

On May 10, 2004, the Company acquired a 74.7% interest in Investment Planning Counsel Inc. (Investment Planning Counsel). The Company's results include its earnings for the period May 10 to September 30, 2004 which are reported in the Corporate and Other segment in Table 2. Additional information related to the acquisition is included in the Outlook section of the MD&A on page 19 and in Note 10 to the Interim Consolidated Financial Statements on page 29.

Management measures and evaluates the performance of segments based on earnings before interest and taxes as shown in Table 2. Discussion of segment operating results for Investors Group and Mackenzie is contained on pages 8 to 15.

Earnings before interest and taxes for Corporate and Other, the segment which includes operating results for Investment Planning Counsel, net investment income earned on unallocated investments and other income as well as inter-segment eliminations, were \$7.4 million for the three months ended September 30, 2004 compared to \$11.2 million in 2003 and \$17.8 million for the nine months ended September 30, 2004 compared to \$26.5 million in 2003. Investment Planning Counsel's earnings before interest and taxes were \$2.1 million for the three months ended September 30, 2004 and \$2.7 million for the period May 10 to September 30, 2004. The reduction in net investment income earned on unallocated investments and other income for the three and nine month periods ended September 30, 2004 compared with 2003 was due to lower levels of invested assets and other income.

TABLE 1: RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

	THREE MONTHS ENDED SEPTEMBER 30				NINE MONTHS ENDED SEPTEMBER 30			
	2004		2003		2004		2003	
(\$ millions except per share amounts)	NET INCOME	EPS	NET INCOME	EPS	NET INCOME	EPS	NET INCOME	EPS
Non-GAAP results	\$ 153.8	\$ 0.58	\$ 140.6	\$ 0.53	\$ 454.3	\$ 1.71	\$ 389.7	\$ 1.47
Dilution gain	—	—	14.8	0.06	—	—	14.8	0.06
GAAP results	\$ 153.8	\$ 0.58	\$ 155.4	\$ 0.59	\$ 454.3	\$ 1.71	\$ 404.5	\$ 1.53

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

THREE MONTHS ENDED SEPTEMBER 30 (\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER		TOTAL	
	2004	2003	2004	2003	2004	2003	2004	2003
Fee income	\$ 267.2	\$ 245.9	\$ 202.5	\$ 187.1	\$ 20.6	\$ (0.9)	\$ 490.3	\$ 432.1
Net investment income and other	28.4	23.6	3.7	7.5	4.7	11.2	36.8	42.3
	295.6	269.5	206.2	194.6	25.3	10.3	527.1	474.4
Operating expenses								
Commissions	63.7	46.9	79.4	70.2	12.2	–	155.3	117.1
Non-commission	59.1	59.1	61.7	64.1	5.7	(0.9)	126.5	122.3
	122.8	106.0	141.1	134.3	17.9	(0.9)	281.8	239.4
<b>Earnings before interest and taxes</b>	<b>\$ 172.8</b>	<b>\$ 163.5</b>	<b>\$ 65.1</b>	<b>\$ 60.3</b>	<b>\$ 7.4</b>	<b>\$ 11.2</b>	<b>245.3</b>	<b>235.0</b>
Interest expense							18.7	19.3
							226.6	215.7
Dilution gain							–	14.8
Income before income taxes and non-controlling interest							226.6	230.5
Income taxes							67.0	69.9
Non-controlling interest							0.6	–
<b>Net income</b>							<b>159.0</b>	<b>160.6</b>
Preferred dividends							5.2	5.2
Net income available to common shareholders							<b>\$ 153.8</b>	<b>\$ 155.4</b>
NINE MONTHS ENDED SEPTEMBER 30								
(\$ millions)								
Fee income	\$ 807.4	\$ 718.2	\$ 615.8	\$ 551.9	\$ 31.6	\$ (2.6)	\$ 1,454.8	\$ 1,267.5
Net investment income and other	90.6	79.4	11.4	16.0	14.2	26.5	116.2	121.9
	898.0	797.6	627.2	567.9	45.8	23.9	1,571.0	1,389.4
Operating expenses								
Commissions	194.7	138.3	238.3	210.7	19.9	–	452.9	349.0
Non-commission	187.2	179.3	194.8	196.8	8.1	(2.6)	390.1	373.5
	381.9	317.6	433.1	407.5	28.0	(2.6)	843.0	722.5
<b>Earnings before interest and taxes</b>	<b>\$ 516.1</b>	<b>\$ 480.0</b>	<b>\$ 194.1</b>	<b>\$ 160.4</b>	<b>\$ 17.8</b>	<b>\$ 26.5</b>	<b>728.0</b>	<b>666.9</b>
Interest expense							56.0	61.8
							672.0	605.1
Dilution gain							–	14.8
Income before income taxes and non-controlling interest							672.0	619.9
Income taxes							201.5	199.9
Non-controlling interest							0.7	–
<b>Net income</b>							<b>469.8</b>	<b>420.0</b>
Preferred dividends							15.5	15.5
Net income available to common shareholders							<b>\$ 454.3</b>	<b>\$ 404.5</b>

Certain items reflected in Table 2 are not allocated to segments:

- *Interest expense* – represents the cost of financing the Mackenzie acquisition and totalled \$18.7 million for the three months ended September 30, 2004 compared with \$19.3 million in 2003. For the nine month period in 2004, interest expense was \$56.0 million compared to \$61.8 million in 2003. The reduction in the rate of interest on the \$175 million Floating Bankers' Acceptance contributed to the decrease in interest expense in both the three and nine month periods of 2004 compared with 2003. The reduction in the average balance of outstanding long-term debt also contributed to the decrease in interest expense in the nine month period of 2004 compared with 2003.
- *Income taxes* – the effective rate of tax was 29.6% and 30.0% for the three and nine month periods in 2004 compared with 30.3% and 32.2%, respectively in 2003. The decline in the effective rate for both the three and nine month periods in 2004 compared to 2003 was due to reductions in statutory tax rates, increases in gains on the sale of securities and the Company's share of Great-West Lifeco Inc.'s (GWL) earnings which are reported in net investment

income and other, and which are taxed at lower rates, as well as other tax benefits. The effective tax rate for the three and nine months ended September 30, 2003 also reflects the positive impact of the dilution gain of \$14.8 million which was not subject to tax.

#### CHANGES IN ACCOUNTING POLICIES

There were no changes to the Company's accounting policies during the three months ended September 30, 2004.

#### SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

There were no changes in the nature of the Company's critical accounting estimates in the third quarter of 2004.

#### FUTURE ACCOUNTING CHANGES

Effective January 1, 2005, the Company will be required to comply with the provisions of Accounting Guideline 15, Consolidation of Variable Interest Entities, and amendments to Section 3860, Financial Instruments – Disclosure and Presentation. The Company is reviewing the potential impact that these new accounting requirements may have on the financial statement presentation of the Company.

## Investors Group

### Assets Under Management

The level of assets under management is influenced by three factors: sales, redemption rates and capital markets, including relative investment performance. The changes in assets under management in 2004 compared with 2003 are summarized in Table 3.

For the three months ended September 30, 2004, sales of Investors Group mutual funds sold through its Consultant Network were \$995 million, an increase of 12.0% from 2003. This compares to an overall industry increase in mutual fund sales of 11.3%. Mutual fund redemptions totalled \$1.05 billion for the same period, a decrease of 10.6% from the \$1.17 billion recorded in 2003. Investors Group's redemption rate for long-term funds decreased to 9.2% at September 30, 2004 from 11.4% at September 30, 2003 and remains well below the corresponding redemption rate of 15.0% for all other members of the Investment Funds Institute of Canada (IFIC). Net redemptions of Investors Group mutual funds were \$52 million compared with net redemptions of \$284 million in 2003.

Sales of long-term funds were \$779 million for the three months ended September 30, 2004, compared with \$681 million in 2003, an increase of 14.5%. Net redemptions of long-term funds were \$96 million compared to net redemptions of \$276 million in 2003.

For the nine months ended September 30, 2004, sales of Investors Group mutual funds sold through its

Consultant Network were \$3.62 billion, an increase of 19.7% from 2003. This compares to an overall industry increase in mutual fund sales of 34.6%. Mutual fund redemptions totalled \$3.36 billion for the same period, a decrease of 11.0% from the \$3.77 billion recorded in 2003. Net sales of Investors Group mutual funds were \$264 million compared with net redemptions of \$746 million in 2003.

Sales of long-term funds were \$2.8 billion for the nine months ended September 30, 2004, compared with \$2.3 billion in 2003, an increase of 21.1%. Net sales of long-term funds were \$13 million compared to net redemptions of \$719 million in 2003. Certain sales of long-term funds in the first quarter of 2004, sourced through Investors Group's Solutions Banking<sup>†</sup> loan programs, were deposited and held in Investors Group's Money Market Fund on a one-day basis and then transferred into long-term mutual funds. Including these sales, the sales and net sales of long-term funds for the nine months ended September 30, 2004 would have been \$3.0 billion and \$146 million, respectively.

At September 30, 2004, 42% of Masterseries<sup>™</sup> funds had a four or five star rating compared to 38% at June 30, 2004 and 40% at both March 31, 2004 and December 31, 2003, and is higher than the Morningstar<sup>†</sup> universe of 32%. As at September 30, 2004, 76% of the Masterseries<sup>™</sup> funds had a rating of three stars or better.

TABLE 3: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2004	2003	CHANGE	2004	2003	CHANGE
Sales	\$ 994.7	\$ 887.8	12.0%	\$ 3,619.4	\$ 3,023.5	19.7%
Redemptions	1,046.6	1,171.3	(10.6)	3,355.8	3,770.0	(11.0)
<b>Net sales (redemptions)</b>	<b>(51.9)</b>	<b>(283.5)</b>	<b>81.7</b>	<b>263.6</b>	<b>(746.5)</b>	<b>N/M</b>
Market and income	(188.1)	1,137.4	N/M	1,128.2	1,606.6	(29.8)
Net change in assets	(240.0)	853.9	N/M	1,391.8	860.1	61.8
Beginning assets	42,536.0	37,594.3	13.1	40,904.2	37,588.1	8.8
<b>Ending assets</b>	<b>\$ 42,296.0</b>	<b>\$ 38,448.2</b>	<b>10.0%</b>	<b>\$ 42,296.0</b>	<b>\$ 38,448.2</b>	<b>10.0%</b>
<b>Consists of:</b>						
Investors Masterseries <sup>™</sup>	\$ 36,401.6	\$ 33,030.6	10.2%	\$ 36,401.6	\$ 33,030.6	10.2%
IG Mackenzie	1,412.8	1,080.0	30.8	1,412.8	1,080.0	30.8
Partner funds	3,493.3	3,704.9	(5.7)	3,493.3	3,704.9	(5.7)
iProfile <sup>™</sup> funds	417.1	364.4	14.5	417.1	364.4	14.5
Investors Group Corporate Class Inc.	571.2	268.3	112.9	571.2	268.3	112.9
	\$ 42,296.0	\$ 38,448.2	10.0%	\$ 42,296.0	\$ 38,448.2	10.0%
<b>Average daily assets</b>	<b>\$ 42,003.9</b>	<b>\$ 38,545.4</b>	<b>9.0%</b>	<b>\$ 42,254.7</b>	<b>\$ 37,401.8</b>	<b>13.0%</b>

This compares with 65% at June 30, 2004 and 74% at both March 31, 2004 and December 31, 2003 and is higher than the Morningstar<sup>+</sup> universe of 67%. Morningstar Ratings<sup>+</sup> are an objective, quantitative measure of a fund's historical risk-adjusted performance relative to other funds in its category, of which the top 10 percent of the funds in each category get a five-star rating.

Investors Group's mutual fund assets under management were \$42.3 billion at September 30, 2004, an increase of \$3.8 billion or 10.0% from September 30, 2003. During the three month period ended September 30, 2004, Investors Group's mutual fund assets decreased \$240 million and in the nine month period ended September 30, 2004, increased \$1.4 billion or 3.4%. The twelve month increase in assets from September 30, 2003 reflects positive market action of \$3.7 billion and net sales of mutual funds totalling \$172 million. The decline in assets for the three months ended September 30, 2004 reflects negative market action and net redemptions. The increase in assets from December 31, 2003 reflects positive market action and net sales experienced in the nine months of 2004. The increase in assets in the industry for the three, nine and twelve months ended September 30, 2004 are (1.2)%, 7.2% and 15.1%, respectively.

On June 21, 2004 unitholders and shareholders approved changes to the Investors Group fund shelf, which includes thirteen fund mergers involving funds with identical or substantively similar investment mandates. These changes are intended to facilitate more efficient management of the funds and provide better investment diversification opportunities. Seven fund mergers took effect on July 30, 2004 and six fund mergers are scheduled to take effect on or about November 21, 2004. In conjunction with the fund mergers, Investors Group served notice to terminate its investment advisory arrangements with Sceptre Investment Counsel Limited. The IG Sceptre funds were merged into existing Masterseries<sup>™</sup> and Investors Group Corporate Class funds in late July.

During the second quarter, Investors Group added Canadian equity fund manager Bissett Investment Management, an operating division of Franklin Templeton Investments Corp. to its fund offering. On August 10, 2004 Investors Group launched two new funds, IG Bissett Canadian Equity Fund and IG Bissett Canadian Equity Class of Investors Group Corporate Class Inc.

On October 12 and 13, 2004 Investors Group filed preliminary prospectuses for 7 new funds to enhance its

income offering. Subject to regulatory approval, these funds will be introduced in late November 2004 for Investors Group clients who are focused on preservation of capital as well as clients who are looking for income protection and steady cash flow.

Three new Monthly Income Portfolios are being introduced which are fund-of-fund products with a blend of both fixed income and equity funds. The funds' objectives are to generate income and capital appreciation as well as the distribution of income and the return of capital on a tax efficient basis.

In addition, a Real Return Bond Fund is being introduced to provide a level of income that is hedged against inflation. Investors Income Trust Fund is being introduced to provide a high level of income with the potential for moderate capital appreciation.

Two new capital yield funds are being introduced to provide fixed income exposure in Investors Group Corporate Class Inc. The Short Term Capital Yield Class is structured to provide a return similar to that of a short term Canadian fixed income fund. Investors Capital Yield Class is structured to provide a return similar to that of an intermediate term fixed income fund.

#### EXPANDED PRODUCT AND SERVICE OFFERING

Offering a broader range of financial products and increasing the diversification of the Company's core products have strengthened existing client relationships and have attracted new clients. This strategy continues to enhance the extent and quality of Investors Group's client relationships, protect its client base and expand its market share.

#### *Investors Group Insurance Operations*

During the third quarter of 2004, I.G. Insurance Services Inc., Investors Group's insurance distribution subsidiary, completed a review of its distribution strategy. A key component in the implementation of this strategy was the establishment of a distribution agreement with Canada Life, a subsidiary of GWL. Under this arrangement, which was effective September 20, 2004, Canada Life became the preferred individual life insurance carrier for I.G. Insurance Services Inc. through initiatives such as:

- Introduction of a customized Investors Group - Canada Life Universal Life product which will include the majority of Investors Group's mutual fund options within the product.
- Improvement in field and administrative support to enhance the delivery of the individual life insurance product.

### Investors Group Mortgage Operations

Investors Group added the Variable Rate Mortgage and the Lock & Roll Mortgage to its mortgage product shelf on September 7, 2004 in order to provide its Mortgage Planning Specialists and Consultants with more flexibility within the mortgage product offering.

- The Variable Rate Mortgage provides clients with the Company's lowest available interest rate, discounted 1.00% below prime for the first 6 months and .375% below prime for the balance of its 5 year term with payments that are fixed throughout the term of the mortgage. If interest rates decline, the

principal owing reduces more rapidly while, in an increasing interest rate environment, payments remain stable with an increased proportion being applied towards interest costs.

- The Lock & Roll Mortgage offers the convenience of a 5 year term together with the advantage of a discounted short term interest rate.

Both mortgages offer convertibility features and prepayment options designed to meet clients' changing needs. To date Consultants and clients have responded very favourably to these new product offerings.

## Segment Operating Results

Investors Group's earnings from operations before interest and taxes for the three and nine month periods ended September 30, 2004 compared with 2003 are presented in Table 4.

### FEE AND NET INVESTMENT INCOME

For the three months ended September 30, 2004, management fee income increased by \$16.5 million to \$205.9 million. The increase reflects the growth of 9.0% in average daily mutual fund assets in the third quarter compared with 2003. For the nine months ended September 30, 2004, management fee income increased by \$71.6 million to \$618.0 million. The increase in the nine month period ended September 30, 2004 reflects the

growth of 13.0% in average daily mutual fund assets compared with 2003. For both the three and nine month periods, management fee income represents 195 basis points of average mutual fund assets, unchanged from 2003.

Investors Group earns administration fees for providing administrative services to its mutual funds through certain of its subsidiaries and trusteeship services to its mutual funds through Investors Group Trust Co. Ltd. Administration fees totalled \$38.2 million for the three months ended September 30, 2004, up 12.0% from \$34.1 million in 2003. Fees for the nine months ended September 30, 2004 were \$119.1 million in 2004, compared to \$103.1 million in 2003. During the three and nine month periods, fees charged to the mutual funds

TABLE 4: OPERATING RESULTS – INVESTORS GROUP

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2004	2003	CHANGE	2004	2003	CHANGE
<b>Fee and net investment income</b>						
Management	\$ 205.9	\$ 189.4	8.7%	\$ 618.0	\$ 546.4	13.1%
Administration	38.2	34.1	12.0	119.1	103.1	15.5
Distribution	23.1	22.4	3.1	70.3	68.7	2.3
Net investment income and other	28.4	23.6	20.3	90.6	79.4	14.1
	295.6	269.5	9.7	898.0	797.6	12.6
<b>Operating expenses</b>						
Commissions	25.5	18.9	34.9	80.9	58.5	38.3
Asset Retention Bonus and Premium	38.2	28.0	36.4	113.8	79.8	42.6
Non-commission	59.1	59.1	–	187.2	179.3	4.4
	122.8	106.0	15.8	381.9	317.6	20.2
<b>Earnings before interest and taxes</b>	\$ 172.8	\$ 163.5	5.7%	\$ 516.1	\$ 480.0	7.5%

for administrative services increased \$2.1 million and \$7.9 million respectively due to increases in related non-commission expenses. Increases in trustee fees in both the three and nine month periods resulted from growth in average mutual fund assets in 2004 compared to 2003. Other service fees increased due to both the growth in average mutual fund assets during the three and nine month periods of 2004 compared to 2003 and the introduction of the fixed rate service fee on deferred sales charge and no-load products in August 2003.

Distribution fees are earned from:

- Redemption fees or back-end loads on mutual funds subject to a deferred sales charge. In 2003, Investors Group revised redemption fee rates on mutual funds sold subject to a deferred sales charge. Fees charged range from 5.5% in the first year reducing to nil after seven years and are consistent with industry rates. Previously, redemption fee rates ranged from 3.0% in the first year reducing to nil after six years.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Provision of securities services through Investors Group Securities Inc.
- Provision of banking services through Solutions Banking<sup>†</sup>, an arrangement with the National Bank of Canada introduced in June 2003.

Distribution fee income of \$23.1 million for the three months ended September 30, 2004 increased 3.1% from \$22.4 million in 2003. The increase was primarily due to distribution fees related to banking operations which increased in 2004 as a result of higher business volumes. This was offset in part by redemption fee income which declined by \$1.3 million primarily due to lower redemptions subject to deferred sales charges in 2004 compared to 2003.

Distribution fee income of \$70.3 million for the nine months ended September 30, 2004 increased by 2.3% from \$68.7 million in 2003. Distribution fees related to insurance, securities, and banking operations increased in 2004 as a result of higher business volumes. This was offset in part by lower redemption fee income which declined by \$4.1 million primarily due to lower redemptions subject to deferred sales charges in 2004 compared to 2003.

Net investment income represents the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities,

certificates and debt, but excludes interest expense on debt incurred to finance its acquisition of Mackenzie. Net investment income and other totalled \$28.4 million for the three months ended September 30, 2004, an increase of \$4.8 million from \$23.6 million in 2003 primarily due to increases in Investors Group's share of GWL's earnings and gains on the sale of securities.

For the nine months ended September 30, 2004, net investment income and other totalled \$90.6 million, an increase of \$11.2 million from \$79.4 million in 2003. This increase was due principally to increases in Investors Group's share of GWL's earnings and gains on the sale of securities, offset in part by a decrease in revenues related to mortgage banking activities.

#### OPERATING EXPENSES

Investors Group incurs commission expense in connection with the distribution of its financial services and products, particularly its mutual funds. Commissions are paid on the sale of these products and will fluctuate with the level of sales. Commission expense for the three months ended September 30, 2004 increased by \$6.6 million to \$25.5 million compared with \$18.9 million in 2003. For the nine months ended September 30, 2004, commission expense increased by \$22.4 million to \$80.9 million from \$58.5 million in 2003. The increase in commission expense for both the three and nine month periods in 2004 compared to 2003 was due to:

- Increase in amortization of commissions totalling \$1.5 million and \$8.0 million for the three and nine month periods, respectively, related to prior year sales. This increase reflects the impact from the change in estimate, effective April 1, 2001, which increased the term of amortization on sales commissions to 72 months.
- Amortization of commissions of \$4.4 million for the three months and \$8.7 million for the nine months related to 2004 sales.
- Increases in other compensation related to mutual fund operations, insurance, mortgage and banking products.

In 2004, the asset retention bonus (ARB) and premium (ARP) expenses, which are based on the level of assets under management, are comprised of the following:

- Regular ARB which is paid monthly and is based on the month-end value of assets under management. As part of the Company's realignment of its Consultant compensation in 2003, increases to the ARB rate

paid to Consultants were introduced. Regular ARB expense increased by \$6.1 million and \$21.8 million for the three and nine month periods as a result of both the increase in assets under management and the increase in the ARB rate paid to Consultants.

- Asset retention premium (ARP) which is a deferred component of compensation designed to promote Consultant retention. The ARP, which was announced in 2003, was effective beginning in 2004. ARP expense for the three and nine month periods ended September 30, 2004 was \$4.1 million and \$12.2 million.

Non-commission expense totalled \$59.1 million for both the three months ended September 30, 2004 and 2003. For the nine month period ended September 30, 2004, non-commission expense totalled \$187.2 million compared with \$179.3 million in 2003, an increase of \$7.9 million or 4.4%. Increases in expenses for both the three and nine month periods in 2004 were primarily due to:

- Increases in expenses related to the administration of Investors Group's mutual funds due to increased transactional volumes.
- The amortization of capital expenditures and post conversion activity costs which were both related to the single shareholder system. Investors Group and Mackenzie merged their transfer agency and

unitholder recordkeeping systems into one shareholder system in November 2003.

- Increases in sub-advisory fees as a result of increases in these assets under management.
- Increases in Consultant network support costs as a result of increased activity levels.

Non-commission expense of \$59.1 million for the three months ended September 30, 2004 and \$187.2 million for the nine month period in 2004 includes a reduction of \$3.7 million which represents a portion of the general allowance for credit losses. This reduction of a portion of the general allowance results from the periodic review of the credit quality of Investors Group's mortgage portfolio and the adequacy of the related general allowance and reflects changes in the size and composition of portfolios, improving default and loss trends and continued improvement in underwriting and default management policies and processes.

Investors Group continues to benefit from the impact of synergies related to the transition work completed with Mackenzie. In addition, management continues to focus on both control of discretionary expenses and expense reductions beyond the opportunities created by the transition activities.

## Mackenzie

### Assets Under Management

Mackenzie's mutual fund assets under management were \$35.0 billion at September 30, 2004, a decline of \$0.8 billion from \$35.8 billion as at June 30, 2004, and an increase of \$3.5 billion from \$31.5 billion as at September 30, 2003.

During the three month period ended September 30, 2004, sales of Mackenzie's mutual funds were \$1.44 billion, an increase of 27.9% from \$1.12 billion in the comparative period last year. This compares to an overall industry increase in mutual fund sales of 11.3%.

Redemptions of mutual funds during these same periods were \$1.33 billion and \$1.16 billion respectively, resulting in net sales of mutual funds of \$110 million during the three month period ended September 30, 2004 as compared to net redemptions of mutual funds of \$39 million in the three month period ended September 30, 2003. Net sales of long-term funds were \$133 million in the three month period ended September 30, 2004, as compared to net sales of long-term funds of \$17 million in the corresponding period last year.

During the nine month period ended September 30, 2004, sales of Mackenzie's mutual funds were \$5.09 billion, an increase of 39.0% from \$3.66 billion in the comparative period last year. This compares to an overall industry increase in mutual fund sales of 34.6%. During 2004 redemptions of mutual funds were \$4.42 billion as compared to redemptions of \$3.92 billion in the nine month period ended September 30, 2003. Net sales of mutual funds during the nine month period ended September 30, 2004 were \$672 million, as compared to

net redemptions of \$258 million in the comparative period last year. Net sales of long-term funds were \$730 million for the nine month period ended September 30, 2004, as compared to net sales of long-term funds of \$17 million in the comparative period last year.

Market performance reduced mutual fund assets by \$1.0 billion during the three month period ended September 30, 2004, and increased mutual fund assets by \$0.5 billion during the nine month period ended September 30, 2004. In the corresponding periods last year, market performance increased mutual fund assets by \$1.3 billion and \$0.9 billion respectively.

At September 30, 2004, 37% of Mackenzie mutual funds had a four or five star rating compared to 43% at June 30, 2004 and 36% at December 31, 2003, and is higher than the Morningstar<sup>+</sup> universe of 32%. As at September 30, 2004, 65% of Mackenzie mutual funds had a rating of three stars or better. This compares with 69% at June 30, 2004 and 71% at December 31, 2003 and compares to the Morningstar<sup>+</sup> universe of 67%.

In addition to its mutual fund business, an important component of Mackenzie's operations are the provision of investment management, administration and distribution services for other investment products. As at September 30, 2004, Mackenzie provided investment management services to private and institutional accounts with assets of \$4.25 billion, a 55.9% increase from the corresponding period last year, and provided administration and distribution services to venture capital funds with \$1.0 billion in net assets.

TABLE 5: CHANGES IN ASSETS UNDER MANAGEMENT AND ADMINISTRATION – MACKENZIE

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2004	2003	CHANGE	2004	2003	CHANGE
<b>Mutual Funds</b>						
Sales	\$ 1,438.2	\$ 1,124.2	27.9%	\$ 5,092.4	\$ 3,664.4	39.0%
Redemptions	1,328.6	1,162.7	14.3	4,420.6	3,922.3	12.7
<b>Net sales (redemptions)</b>	<b>109.6</b>	(38.5)	N/M	<b>671.8</b>	(257.9)	N/M
Market and income	(977.3)	1,265.7	N/M	537.5	895.5	(40.0)
Net change in assets	(867.7)	1,227.2	N/M	1,209.3	637.6	89.7
Beginning assets	35,846.9	30,270.5	18.4	33,769.9	30,860.1	9.4
<b>Ending assets</b>	<b>\$ 34,979.2</b>	\$ 31,497.7	11.1%	<b>34,979.2</b>	31,497.7	11.1
<b>Private and Institutional Clients</b>				<b>4,245.2</b>	2,722.5	55.9
<b>Resource Limited Partnership</b>				<b>31.7</b>	–	N/A
<b>Labour Sponsored Funds</b>				<b>995.7</b>	989.7	0.6
<b>Total</b>				<b>\$ 40,251.8</b>	\$ 35,209.9	14.3%
<b>Average daily mutual fund assets</b>	<b>\$ 35,053.7</b>	\$ 31,446.2	11.5%	<b>\$ 35,228.5</b>	\$ 30,290.6	16.3%

## Segment Operating Results

Mackenzie's earnings from operations before interest and taxes for the three and nine month periods ended September 30, 2004 compared with 2003 are presented in Table 6.

### FEE AND NET INVESTMENT INCOME

Management fees were \$159.4 million for the three month period ended September 30, 2004, an increase of \$17.8 million or 12.6% from \$141.6 million in the comparative period last year. This increase is consistent with the 11.5% increase in Mackenzie's average mutual fund assets under management and the growth in its private and institutional accounts. For the nine month period ended September 30, 2004, management fees increased \$71.1 million or 17.3% to \$481.6 million from \$410.5 million in the comparative period last year. This increase is consistent with the 16.3% increase in Mackenzie's average mutual fund assets under management and the growth in its private and institutional accounts.

Administration fees include the following main components: operating expenses charged to funds; fees earned from administering the VenGrowth labour sponsored venture capital funds; asset allocation fees; and trustee and other administration fees generated from the MRS Group account administration business. Administration fees declined by \$1.3 million from \$36.4 million in the comparative period to \$35.1 million in the three month period ended September 30, 2004. The decrease in administration fees is attributed to a \$1.0 million decline in operating expenses charged to funds, consistent with the decline in expenses incurred by

Mackenzie on behalf of its mutual funds, and a reduction of \$0.3 million in asset allocation fees and administration fees earned by the MRS Group. In the nine month period ended September 30, 2004 administration fees were \$107.4 million as compared to \$111.3 million in the comparative period last year. The decrease in administration fees is attributed to a \$3.3 million decline in recoverable fund operating expenses and a reduction of \$0.6 million in asset allocation fees and administration fees earned by the MRS Group.

Mackenzie receives distribution fee income upon redemption of mutual fund units sold subject to a deferred sales charge for which Mackenzie was the primary distributor. Fees charged range from 5.5% in the first year reducing to nil after seven years. Distribution fee income decreased \$1.1 million to \$8.0 million in the three month period ended September 30, 2004 from \$9.1 million in the comparative period last year. Distribution fee income in the nine month period ended September 30, 2004 was \$26.8 million, a decrease of \$3.3 million from \$30.1 million in the comparative period last year. These decreases are consistent with the decline in the redemption of mutual funds that were subject to a redemption fee and to the fact that mutual fund units subject to redemption fees are aging and therefore have lower applicable redemption fee rates.

Net investment income and other represents the net interest margin from M.R.S. Trust Company's (M.R.S. Trust) lending and deposit operations. Net investment income in the three month period ended September 30, 2004 was \$3.7 million, a decline of \$3.8 million as

TABLE 6: OPERATING RESULTS – MACKENZIE

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2004	2003	CHANGE	2004	2003	CHANGE
<b>Fee and net investment income</b>						
Management	\$ 159.4	\$ 141.6	12.6%	\$ 481.6	\$ 410.5	17.3%
Administration	35.1	36.4	(3.6)	107.4	111.3	(3.5)
Distribution	8.0	9.1	(12.1)	26.8	30.1	(11.0)
Net investment income and other	3.7	7.5	(50.7)	11.4	16.0	(28.8)
	206.2	194.6	6.0	627.2	567.9	10.4
<b>Operating expenses</b>						
Commissions	37.3	33.8	10.4	112.1	106.6	5.2
Trailer fees	42.1	36.4	15.7	126.2	104.1	21.2
Non-commission	61.7	64.1	(3.7)	194.8	196.8	(1.0)
	141.1	134.3	5.1	433.1	407.5	6.3
<b>Earnings before interest and taxes</b>	\$ 65.1	\$ 60.3	8.0%	\$ 194.1	\$ 160.4	21.0%

compared to \$7.5 million in the corresponding period last year. Net investment income was \$11.4 million in the nine month period ended September 30, 2004, a decrease of \$4.6 million from \$16.0 million in the comparative period last year. These decreases are primarily attributed to a gain realized in the prior year on the disposition of real estate held for sale. There is no corresponding gain in the current year's results. The remainder of the decline is due to the net interest margin compression on M.R.S. Trust's lending and deposit portfolios.

#### OPERATING EXPENSES

Mackenzie's operating expenses increased 5.1% and 6.3% in the three and nine month periods ended September 30, 2004 respectively as compared to the same periods last year.

Commission expense, which represents the amortization of deferred selling commissions, was \$37.3 million in the three month period ended September 30, 2004 as compared to \$33.8 million in the previous year. Commission expense in the nine month period ended September 30, 2004 was \$112.1 million, as compared to \$106.6 million in the same period in 2003. Mackenzie amortizes deferred selling commissions over a maximum period of seven years. However, to the extent fees are received on the redemption of the underlying mutual fund units, amortization is accelerated.

Trailer fees paid to dealers were \$42.1 million in the three month period ended September 30, 2004, an increase of \$5.7 million or 15.7% from \$36.4 million in the three month period ended September 30, 2003. Trailer fees in the nine month period ended September 30, 2004 were \$126.2 million as compared to \$104.1

million in 2003. Trailer fees as a percentage of average mutual fund assets under management increased to 48.4 basis points in the current quarter as compared to 46.5 basis points in the corresponding period last year and increased to 47.9 basis points in the nine month period ended September 30, 2004 as compared to 46.0 basis points in the same period last year. The increase in trailer fees in both the three and nine month periods ended September 30, 2004 was consistent with the period over period growth in average mutual fund assets under management and the shift in the percentage of Mackenzie's mutual fund assets invested in long-term equity based funds as opposed to short-term money market funds which has resulted in a higher average trailer fee rate.

Non-commission expenses decreased \$2.4 million to \$61.7 million in the three month period ended September 30, 2004 from \$64.1 million in the comparative period last year. Non-commission expenses in the nine month period ended September 30, 2004 were \$194.8 million, a decrease of \$2.0 million from \$196.8 million in the comparative period in 2003. A component of the non-commission expenses incurred by Mackenzie is related to the administration of its mutual funds. These expenses, which are recovered from Mackenzie's mutual funds, declined in the current periods as compared to the corresponding periods last year, largely a result of continued cost synergies being realized from the transition work with Investors Group. This reduction in non-commission expenses was partially offset by an increase in sub-advisory expenses incurred by Mackenzie in the management of its mutual funds, consistent with the growth in its sub-advised assets under management as compared to the same period last year.

## IGM Financial Inc.

### Consolidated Financial Position

The Company's on-balance sheet assets totalled \$6.55 billion at September 30, 2004 compared to \$6.29 billion at December 31, 2003.

The Company's holdings of securities were \$124.4 million at September 30, 2004, an increase of \$18.1 million or 17.1% from December 31, 2003. Securities currently represent 1.9% of total assets compared to 1.7% at December 31, 2003. The market value of the Company's portfolio exceeded cost by \$115.3 million at September 30, 2004 and \$125.1 million at December 31, 2003.

Loans, including mortgages and personal loans, increased marginally to \$529.1 million during 2004 and

represent 8.1% of total assets, compared to 8.4% at December 31, 2003. Residential loans related to the Company's mortgage banking operations, designated for sale to third parties on a fully serviced basis, increased by \$21.3 million while mortgages and personal loans related to the Company's intermediary activities decreased by \$20.3 million. During the three months ended September 30, 2004, loans decreased by \$121.3 million primarily due to securitization activities through the Company's mortgage banking operations as discussed in the Cash Flows section later in this report and in Note 2 to the Interim Consolidated Financial Statements.

### Consolidated Liquidity and Capital Resources

#### LIQUIDITY

The Company's operating liquidity is required for:

- Financing ongoing operations, including the funding of selling commissions.
- Temporarily financing mortgages in its mortgage banking facility.
- Meeting regular interest and dividend obligations related to long-term debt and preferred shares.
- Payment of quarterly dividends on the Company's outstanding common shares.
- Maintaining liquidity requirements for the Company's regulated entities.

The Company continues to generate significant cash flows which are sufficient to meet its operating liquidity requirements. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled \$312.8 million for the three months ended September 30, 2004 compared to \$292.5 million in 2003, and represents an

increase of 6.9%. EBITDA totalled \$924.0 million for the nine months ended September 30, 2004 compared to \$839.6 million for the same period in 2003, an increase of 10.0%. During the three and nine month periods ended September 30, 2004, average consolidated mutual fund assets under management increased by 12.0% and 15.5% respectively over 2003 levels.

Other potential sources of liquidity include the Company's portfolio of securities and lines of credit. As at September 30, 2004, the market value of the marketable securities in its portfolios and those of its unregulated subsidiaries was \$218.9 million. The Company's operating lines of credit totalled \$235 million with various Schedule 1 Canadian chartered banks, of which \$75 million represented committed lines of credit.

Liquidity can also be provided through the Company's demonstrated ability to raise funds in domestic debt and equity markets.

TABLE 7: CASH FLOWS

(\$ millions)	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2004	2003	CHANGE	2004	2003	CHANGE
Operating activities						
Before payment of commissions	\$ 269.2	\$ 236.1	14.0%	\$ 583.2	\$ 541.9	7.6%
Commissions paid	(65.0)	(49.2)	(32.1)	(234.7)	(173.5)	(35.3)
Net of commissions paid	204.2	186.9	9.3	348.5	368.4	(5.4)
Financing activities	(124.4)	(91.4)	(36.1)	(351.8)	(171.9)	(104.7)
Investing activities	124.6	(147.7)	N/M	(59.0)	(110.8)	46.8
<b>(Increase) decrease in cash and cash equivalents</b>	<b>204.4</b>	<b>(52.2)</b>	<b>N/M</b>	<b>(62.3)</b>	<b>85.7</b>	<b>N/M</b>
Cash and cash equivalents, beginning of period	702.6	909.4	(22.7)	969.3	771.5	25.6
<b>Cash and cash equivalents, end of period</b>	<b>\$ 907.0</b>	<b>\$ 857.2</b>	<b>5.8%</b>	<b>\$ 907.0</b>	<b>\$ 857.2</b>	<b>5.8%</b>

## Cash Flows

Table 7 - Cash Flows is a summary of the Statements of Cash Flows which form part of the interim Consolidated Financial Statements for the three and nine months ended September 30, 2004 and is on page 23 of this report.

Operating activities, before payment of commissions, generated \$269.2 million and \$583.2 million during the three and nine month periods ended September 30, 2004, as compared to \$236.1 million and \$541.9 million in 2003. Cash commissions paid of \$65.0 million and \$234.7 million in the three and nine month periods ended September 30, 2004 reflect the increases in mutual fund sales over 2003 levels. Cash commissions paid during the comparable periods in 2003 were \$49.2 million and \$173.5 million.

Financing activities during the quarter ended September 30, 2004 compared to the same period in 2003 related primarily to:

- A decrease of \$43.4 million in deposits and certificates in 2004 compared to a \$23.6 million decrease in 2003.
- The payment of regular preferred and common share dividends which increased to \$78.0 million in 2004 from \$68.5 million in 2003 as a result of increases in the Company's common share dividends.
- The repurchase of 95,100 common shares under the Company's normal course issuer bid at a cost of \$3.2 million.

Financing activities during the nine months ended September 30, 2004 compared to the same period in 2003 related primarily to:

- A decrease of \$80.6 million in deposits and certificates in 2004 compared to an increase of \$5.0 million in 2003 relates to changes in demand deposit levels.
- The payment of regular preferred and common share dividends which increased to \$228.3 million in 2004 from \$201.5 million in 2003 as a result of increases in the Company's common share dividends.
- The repayment of long-term debt assumed on the acquisition of Investment Planning Counsel in May 2004.
- The repurchase of 737,100 common shares under the Company's normal course issuer bid at a cost of \$26.2 million.

Other activity in 2003 related to the issue of \$300 million in debentures and the repayment of \$276 million in long-term debt, as discussed in the 2003 Annual Report.

Investing activities during the quarter ended September 30, 2004 compared to the same period in 2003 related primarily to:

- The purchase of \$4.8 million in securities and securities sales with proceeds of \$7.9 million compared with \$4.1 million and \$7.6 million respectively in 2003.
- Decreases in residential mortgages and personal loans of \$36.5 million compared to increases of \$48.9 million in 2003. Residential mortgages are related to the Company's mortgage banking operations and are held on a temporary basis pending sale to third parties on a fully serviced basis.
- Proceeds on securitizations totalled \$89.4 million in the third quarter of 2004 compared to no securitization transactions undertaken in 2003.

Investing activities during the nine months ended September 30, 2004 compared to the same period in 2003 related primarily to:

- The acquisition of Investment Planning Counsel, net of cash and cash equivalents assumed, which totalled \$63.9 million.
- The purchase of \$59.5 million in securities and securities sales with proceeds of \$68.7 million compared with \$5.1 million and \$76.6 million respectively in 2003.
- Increases in residential mortgages related to the Company's mortgage banking operations as discussed above, and personal loans of \$93.9 million compared with an increase of \$118.2 million in 2003 offset in part by securitizations of \$99.6 million in 2004 and \$51.6 million in 2003.

Other activity in 2003 related to the purchase of, by way of private placement, 2,662,690 common shares of Great West Lifeco Inc., an affiliate of the Company, for total cash consideration of \$100 million related to their acquisition of Canada Life as discussed in the 2003 Annual Report.

## Contractual Obligations

There have been no material changes in the contractual obligations of the Company from those reported at December 31, 2003.

## Regulatory Liquidity Requirements

Liquidity requirements for M.R.S. Trust and Investors Group Trust Co. Ltd., which engage in financial intermediary activities, are established by regulatory authorities. As at September 30, 2004, liquidity for both companies was in excess of regulatory requirements.

### Off-Balance Sheet Arrangements

- *Securitizations* – there were no changes to the Company's liquidity management practices related to securitizations during the three month period ended September 30, 2004. During the three months ended September 30, 2004, the Company entered into a securitization transaction through its mortgage banking operation with proceeds of \$89.4 million as discussed in Note 2 to the interim Consolidated Financial Statements. At September 30, 2004, securitized loans serviced totalled \$562.8 million and the fair value of the Company's retained interest was \$17.8 million. This compares with \$669.2 million and \$12.6 million, respectively at December 31, 2003.
- *Derivatives* – there have been no changes in the Company's policies and procedures with respect to the use of derivative instruments during the quarter ended September 30, 2004. In addition, there has not been a significant change in either the notional amount outstanding or in the exposure to credit risk, which is limited to the current fair value of those instruments which are in a gain position.

### CAPITAL RESOURCES

Shareholders' equity increased to \$3.46 billion as at September 30, 2004 from \$3.22 billion at December 31, 2003. On May 10, 2004, the Company issued 734,796 common shares on the acquisition of Investment Planning Counsel with a stated value of \$24.4 million. Changes in common share capital are reflected in Note 4 to the interim Consolidated Financial Statements. Long-term debt remained at year end 2003 levels of \$1.40 billion.

To achieve its strategic objectives, the Company requires a strong capital base. The Company's capital management objective is to preserve the quality of its financial position by establishing and maintaining a solid capital base and a strong balance sheet.

### FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS (TABLE 8)

Changes in both the carrying values and fair values of financial instruments did not have a significant impact on the financial condition of the Company for the quarter ended September 30, 2004. In addition, there were no significant changes in the risks related to these financial instruments and in the policies and procedures designed to manage these risks during the period.

### RELATED PARTY TRANSACTIONS

There were no changes to the types of related party transactions entered into by the Company during the quarter ended September 30, 2004. There were no material transactions during the period except as follows:

- To facilitate innovative product enhancements, Mackenzie enters into transactions 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, which total \$3.2 billion at September 30, 2004 compared to \$2.2 billion at December 31, 2003, have been offset and, accordingly, have no impact on the Consolidated Balance Sheets.

TABLE 8: FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS – CARRYING VALUE

(\$ millions)	SEPTEMBER 30 2004	DECEMBER 31 2003
<b>Assets</b>		
Cash and cash equivalents	\$ 907.0	\$ 969.3
Securities	124.4	106.2
Loans	529.1	528.0
Account and other receivables	183.1	155.9
	<b>\$ 1,743.6</b>	<b>\$ 1,759.4</b>
<b>Liabilities</b>		
Deposits and certificates	\$ 669.4	\$ 729.5
Other financial liabilities	474.2	450.3
Long-term debt	1,401.8	1,403.6
	<b>\$ 2,545.4</b>	<b>\$ 2,583.4</b>

## Outlook

### ACQUISITION OF INVESTMENT PLANNING COUNSEL

On May 10, 2004, the Company paid \$75.9 million in cash and issued 734,796 common shares, for total consideration of \$100.3 million, including transaction costs, to acquire a 74.7% interest in Investment Planning Counsel.

This acquisition will expand the Company's presence in the independent financial planning channel. Investment Planning Counsel is the fifth largest financial planning firm in Canada with over 600 financial planners, and had mutual fund assets under management of \$1.36 billion (Counsel Group of Funds Inc.) and total assets under management and administration of \$7.32 billion at September 30, 2004. The transaction was structured to maintain the entrepreneurial character of Investment Planning Counsel and was consistent with the Company's strategy of owning leading businesses in both manufacturing and distribution within the advice segment of the financial services industry. Investment Planning Counsel is operating as a separate entity and is being managed by its existing leadership team.

### GROWTH OF MUTUAL FUNDS

The mutual fund market continues to play a prominent role in the financial services industry. As at September 30, 2004, mutual fund industry assets in Canada totalled \$470.5 billion, a decrease of 1.2% from \$476.1 billion at June 30, 2004 and an increase of 7.2% from \$438.9 billion at December 31, 2003. The \$5.6 billion decrease during the third quarter of 2004 was entirely due to the negative impact of market action. Industry net sales for the quarter were \$17 million. The \$31.7 billion increase in industry assets in the nine month period from December 31, 2003 reflects an estimated \$11.1 billion increase from market action, which represented 2.5% of year-end 2003 industry assets, net sales of \$13.3 billion, and the inclusion of approximately \$7.3 billion in new assets that were not previously reported to the Investment Funds Institute of Canada.

### THE REGULATORY ENVIRONMENT

#### Review of Mutual Fund Industry Practices

In November 2003, the Ontario Securities Commission ("OSC" or the "Commission"), together with the Mutual Fund Dealers Association of Canada ("MFDA") and the Investment Dealers Association of Canada ("IDA"),

undertook a review of "late trading" and "market timing" activities in the mutual fund industry. Each of Investors Group and Mackenzie has provided detailed information to the regulators in the context of these reviews and continue to cooperate with them in respect of these matters.

On September 20, 2004, staff of the OSC advised Investors Group that they were of the view that certain accounts had been permitted to engage in a frequent trading market timing strategy in certain funds managed by I.G. Investment Management, Ltd. and that such trading, in staff's view, was harmful to the economic interests of long-term unitholders in those funds. Staff of the OSC indicated that, as a result, they were contemplating the commencement of proceedings before the Commission. The MFDA has since expressed similar concerns to Investors Group. Investors Group is in discussions with OSC and MFDA staff with respect to these matters. Staff of the OSC made similar announcements regarding three other fund companies and indicated that its review of other companies in the industry was continuing. OSC staff have also said that their review has revealed no evidence of "late trading"; in addition, they had found no evidence of any "market timing" by any insiders of Investors Group and the other three companies.

On or about October 26, 2004, a motion for authorization to institute a class action was commenced in the Quebec Superior Court against a subsidiary of Investors Group and five other mutual fund companies claiming damages and other remedies in respect of alleged market timing transactions. Investors Group has not yet had an opportunity to review and consider the allegations contained in this claim.

The Company cannot determine the outcome of these actions and accordingly is unable to reasonably estimate their impact. As such, no provision has been recorded in the financial statements.

### RISK FACTORS

#### Market Risk

Investor confidence remained positive in the first nine months of 2004 in spite of financial markets which experienced some volatility. This has led to significant increases in the level of mutual fund sales and increases in the level of assets under management during the period. However, risks related to performance of the equity

markets and changes in interest rates can have a significant impact on the level and mix of mutual fund assets and sales. In addition, these factors can result in increased redemptions of mutual funds.

#### *Redemption Rates*

The combined redemption rate for long-term funds for Investors Group and Mackenzie mutual funds was 11.2% at September 30, 2004, among the lowest in the industry. The corresponding redemption rate for the industry as a whole was 15.1%, excluding the Company's mutual funds.

Investors Group and Mackenzie provide Consultants and independent financial advisors with superior levels of service and support and a broad range of investment products – based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships and, as a result, the Company has been able to maintain redemption rates that are among the lowest in the industry.

The mutual fund industry has successfully educated mutual fund investors on the benefits of long-term investing. Financial advisors can also play a key role in educating investors about the value of portfolio diversification. In periods of declining markets and market volatility, our Consultants and independent financial advisors have been effective in reminding clients of the benefits of long-term investing.

#### **Distribution Risk**

*Investors Group Consultant Network* – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with particular clients which can lead to a strong and personal client relationship based on the client's trust in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse

effect on Investors Group's results of operations and business prospects. Investors Group is focused on both retaining its key Consultants and growing its overall distribution network, as discussed in the Investors Group Review of the Business beginning on page 27 of the MD&A contained in the 2003 Annual Report. As at September 30, 2004, the number of Consultants totalled 3,391 compared with 3,192 at September 30, 2003, which represents a 6.2% increase in the Consultant Network in the twelve month period.

*Mackenzie* – Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These intermediaries generally offer their clients investment products in addition to, and in competition with Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's portfolio of financial products is recognized as one of the most innovative and unique in the industry. This, combined with strong performance, marketing, educational and service support, has made Mackenzie one of Canada's leading companies serving independent financial advisors.

#### **Other Information**

- Outstanding Share Data – Outstanding shares of the Company as at September 30, 2004 of 264,567,930 are disclosed in Note 4 – Share Capital in the notes to the interim Consolidated Financial Statements. Outstanding shares of the Company as at October 29, 2004 totalled 264,575,930.
- Additional information relating to IGM Financial Inc., including the Company's most recent financial statements and Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

## Consolidated Statements of Income

<i>(unaudited)</i> <i>(in thousands of dollars, except shares and per share amounts)</i>	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2004	2003	2004	2003
<b>Fee and net investment income</b>				
Management	\$ 371,686	\$ 330,119	\$ 1,108,467	\$ 954,278
Administration	74,228	70,433	228,024	214,438
Distribution	44,448	31,569	118,275	98,838
Net investment income and other	36,756	42,255	116,238	121,857
<b>Total fee and net investment income</b>	<b>527,118</b>	<b>474,376</b>	<b>1,571,004</b>	<b>1,389,411</b>
<b>Operating expenses</b>				
Commission expense	155,305	117,143	452,929	348,980
Non-commission expense	126,553	122,255	390,046	373,541
Interest expense	18,714	19,302	55,968	61,754
<b>Total operating expenses</b>	<b>300,572</b>	<b>258,700</b>	<b>898,943</b>	<b>784,275</b>
	<b>226,546</b>	<b>215,676</b>	<b>672,061</b>	<b>605,136</b>
Dilution gain	–	14,820	–	14,820
Income before income taxes and non-controlling interest	226,546	230,496	672,061	619,956
Income taxes	66,969	69,899	201,499	199,912
Income before non-controlling interest	159,577	160,597	470,562	420,044
Non-controlling interest	571	–	731	–
<b>Net income</b>	<b>159,006</b>	<b>160,597</b>	<b>469,831</b>	<b>420,044</b>
Preferred dividends	5,175	5,175	15,525	15,525
<b>Net income available to common shareholders</b>	<b>\$ 153,831</b>	<b>\$ 155,422</b>	<b>\$ 454,306</b>	<b>\$ 404,519</b>
Average number of common shares <i>(in thousands)</i> (Note 7)				
Basic	264,634	263,948	264,379	263,870
Diluted	266,186	265,370	265,954	265,099
Earnings per share <i>(in dollars)</i> (Note 7)				
Basic	\$ 0.58	\$ 0.59	\$ 1.72	\$ 1.53
Diluted	\$ 0.58	\$ 0.59	\$ 1.71	\$ 1.53

## Consolidated Statements of Retained Earnings

<i>(unaudited)</i> <i>(in thousands of dollars)</i>	NINE MONTHS ENDED SEPTEMBER 30	
	2004	2003
<b>Balance, beginning of period</b>		
As previously reported	\$ 1,414,705	\$ 1,148,892
Change in accounting policy (Note 1)	(1,093)	–
As restated	1,413,612	1,148,892
Net income	469,831	420,044
Dividends		
Preferred	(15,525)	(15,525)
Common	(224,779)	(193,958)
Common share cancellation excess (Note 4)	(22,149)	(2,127)
Other	3,772	–
<b>Balance, end of period</b>	<b>\$ 1,624,762</b>	<b>\$ 1,357,326</b>

(See accompanying notes to interim consolidated financial statements.)

## Consolidated Balance Sheets

<i>(unaudited)</i>	SEPTEMBER 30	DECEMBER 31
<i>(in thousands of dollars)</i>	2004	2003
<b>Assets</b>		
Cash and cash equivalents	\$ 907,044	\$ 969,315
Securities	124,374	106,232
Loans	529,054	528,012
Investment in affiliate	498,862	460,655
Deferred selling commissions	839,590	763,874
Other assets	363,116	333,825
Goodwill and intangible assets <i>(Note 3)</i>	3,286,330	3,129,783
	<b>\$ 6,548,370</b>	<b>\$ 6,291,696</b>
<b>Liabilities</b>		
Deposits and certificates	\$ 669,380	\$ 729,456
Other liabilities	593,449	562,820
Future income taxes	420,999	375,072
Long-term debt	1,401,795	1,403,580
	<b>3,085,623</b>	<b>3,070,928</b>
<b>Shareholders' Equity</b>		
Share capital <i>(Note 4)</i>		
Preferred	360,000	360,000
Common	1,474,582	1,446,063
Contributed surplus	3,403	-
Retained earnings	1,624,762	1,414,705
	<b>3,462,747</b>	<b>3,220,768</b>
	<b>\$ 6,548,370</b>	<b>\$ 6,291,696</b>

*(See accompanying notes to interim consolidated financial statements.)*

## Consolidated Statements of Cash Flows

<i>(unaudited)</i>	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
<i>(in thousands of dollars)</i>	2004	2003	2004	2003
<b>Operating activities</b>				
Net income	\$ 159,006	\$ 160,597	\$ 469,831	\$ 420,044
Adjustments to determine net cash from operating activities				
Future income taxes	(1,614)	7,087	38,344	19,758
Commission amortization	57,323	47,378	166,849	144,258
Amortization	5,985	6,144	16,749	19,955
Changes in operating assets and liabilities and other	48,463	14,882	(108,539)	(62,137)
	<b>269,163</b>	236,088	<b>583,234</b>	541,878
Commissions paid	(64,995)	(49,217)	(234,728)	(173,478)
	<b>204,168</b>	186,871	<b>348,506</b>	368,400
<b>Financing activities</b>				
(Decrease) increase in deposits and certificates	(43,393)	(23,572)	(80,640)	5,033
Issue of debentures	-	-	-	300,000
Repayment of long-term debt	-	-	(24,829)	(276,785)
Issue of common shares	219	707	8,153	4,137
Preferred dividends paid	(5,175)	(5,175)	(15,525)	(15,525)
Common dividends paid	(72,779)	(63,345)	(212,751)	(186,010)
Common shares purchased for cancellation	(3,229)	-	(26,204)	(2,741)
	<b>(124,357)</b>	(91,385)	<b>(351,796)</b>	(171,891)
<b>Investing activities</b>				
Acquisition of Investment Planning Counsel, less cash and cash equivalents acquired <i>(Note 10)</i>	-	-	(63,872)	-
Investment in affiliate	-	(100,000)	-	(100,000)
Acquisition of non-controlling interest	-	-	-	(4,733)
Purchase of securities	(4,841)	(4,132)	(59,485)	(5,079)
Proceeds from the sale of securities	7,875	7,617	68,736	76,639
Decrease (increase) in loans	36,549	(48,772)	(93,861)	(118,200)
Proceeds from securitizations	89,437	-	99,627	51,573
Additions to office premises	(4,353)	(2,443)	(10,126)	(11,028)
	<b>124,667</b>	(147,730)	<b>(58,981)</b>	(110,828)
Increase (decrease) in cash and cash equivalents	<b>204,478</b>	(52,244)	<b>(62,271)</b>	85,681
Cash and cash equivalents, beginning of period	<b>702,566</b>	909,447	<b>969,315</b>	771,522
<b>Cash and cash equivalents, end of period</b>	<b>\$ 907,044</b>	\$ 857,203	<b>\$ 907,044</b>	\$ 857,203
Cash	<b>\$ 67,418</b>	\$ 54,416	<b>\$ 67,418</b>	\$ 54,416
Cash equivalents	<b>839,626</b>	802,787	<b>839,626</b>	802,787
	<b>\$ 907,044</b>	\$ 857,203	<b>\$ 907,044</b>	\$ 857,203

*(See accompanying notes to interim consolidated financial statements.)*

# Notes to the Interim Consolidated Financial Statements

SEPTEMBER 30, 2004 (Unaudited) (In thousands of dollars, except shares and per share amounts)

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2003 as set out on pages 48 to 68 of the 2003 Annual Report. Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

During the second quarter, the Company received shareholder and regulatory approval to change its name from Investors Group Inc. to IGM Financial Inc.

## 1. Summary of significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies as set out in Note 1 to the consolidated financial statements for the year ended December 31, 2003 except as noted below.

### BASIS OF CONSOLIDATION

On May 10, 2004, the Company acquired 74.7% of the outstanding common shares of Investment Planning Counsel Inc. (Investment Planning Counsel). The acquisition was accounted for by the purchase method. The consolidated financial statements include its assets and liabilities as of September 30, 2004 and the results of its operations from the date of acquisition.

### 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 adopted the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees. The cumulative effect of adopting the new recommendations in the Company's consolidated financial statements was to both increase contributed surplus and decrease opening retained earnings by \$1.1 million.

### HEDGING RELATIONSHIPS

Accounting Guideline 13 - Hedging Relationships (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 adoption of the new recommendation did not have a material effect on the Company's consolidated financial statements.

## 2. Securitizations

During the third quarter, the Company securitized \$89.8 million of residential mortgages through sales to commercial paper conduits that in turn issued securities to investors and received net cash proceeds of \$89.4 million. The Company's retained interest in the securitized loans was valued at \$2.0 million. A pre-tax gain on sale of \$0.8 million was recognized and reported in Net investment income and other in the Consolidated Statements of Income.

During the nine months ended September 30, 2004, the Company securitized \$100.0 million of residential mortgages through sales to commercial paper conduits that in turn issued securities to investors and received net cash proceeds of \$99.6 million. The Company's retained interest in the securitized loans was valued at \$2.2 million. A pre-tax gain on sale of \$0.9 million was recognized and reported in Net investment income and other in the Consolidated Statements of Income.

### 3. Goodwill and intangible assets

As a result of the acquisition of Investment Planning Counsel, the Company's goodwill increased by \$124.6 million and finite-life intangible assets increased by \$32.6 million less \$0.7 million of amortization in the period since acquisition. These assigned values are preliminary and will be finalized as soon as the Company has gathered all the significant information considered necessary to finalize the purchase price allocation (Note 10).

### 4. Share capital

#### ISSUED AND OUTSTANDING

	SEPTEMBER 30, 2004		DECEMBER 31, 2003	
	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 period	264,089,791	\$ 1,446,063	263,845,333	\$ 1,441,063
Issued on acquisition of Investment Planning Counsel (Note 10)	734,796	24,366	—	—
Issued under Stock Option Plan	480,443	8,209	356,758	5,614
Purchased for cancellation	(737,100)	(4,056)	(112,300)	(614)
Balance, end of period	264,567,930	\$ 1,474,582	264,089,791	\$ 1,446,063

#### NORMAL COURSE ISSUER BID

The Company commenced a normal course issuer bid, effective for one year, on February 22, 2004. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares outstanding as at January 31, 2004. In the third quarter of 2004, 95,100 shares were purchased at a cost of \$3.2 million and, for the nine months ended September 30, 2004, 737,100 shares were purchased at a cost of \$26.2 million. The price paid to purchase the shares in excess of the stated value was charged to retained earnings. On February 22, 2003, 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, 2003. As at September 30, 2003, 112,300 shares were purchased at a cost of \$2.7 million. No common shares were purchased in the third quarter of 2003.

### 5. Stock-based compensation

	SEPTEMBER 30 2004	DECEMBER 31 2003
Common share options		
Outstanding	7,309,922	6,303,023
Exercisable	2,801,847	2,292,297

In the first quarter of 2004, the Company issued 1,262,500 (2003 – 1,420,594) options to employees and 88,750 (2003 – 86,500) options to non-employees. In the second quarter, the Company issued 260,000 (2003 – nil) options to employees. In the third quarter, the Company did not issue options to employees (2003 – 30,000). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of options granted during the nine months ended September 30, 2004 has been estimated at \$7.37 per option (2003 – \$5.34) using the Black-Scholes option pricing model, based on the following assumptions: (i) risk-free interest rate of 4.01% (2003 – 4.58%), (ii) expected option life of six years (2003 – six years), (iii) expected volatility of 25.00% (2003 – 25.00%) and (iv) expected dividend yield of 3.28% (2003 – 3.70%).

The Company recorded compensation expense related to its stock option program of \$2.1 million (2003 – \$0.1 million) for the nine months ended September 30, 2004.

## 6. Pension plans and other post-retirement benefits

The Company recorded pension and other post-retirement benefits expense (income) as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2004	2003	2004	2003
Pension expense (income)	\$ 50	\$ (27)	\$ 151	\$ (84)
Other post-retirement benefits expense	903	749	2,709	2,247
Total	\$ 953	\$ 722	\$ 2,860	\$ 2,163

## 7. Earnings per common share

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2004	2003	2004	2003
<b>Earnings</b>				
Net income	\$ 159,006	\$ 160,597	\$ 469,831	\$ 420,044
Preferred dividends	5,175	5,175	15,525	15,525
Net income available to common shareholders	\$ 153,831	\$ 155,422	\$ 454,306	\$ 404,519
<b>Number of common shares</b> <i>(in thousands)</i>				
Average number of common shares outstanding	264,634	263,948	264,379	263,870
Add:				
– Potential exercise of outstanding stock options	1,552	1,422	1,575	1,229
Average number of common shares outstanding – diluted basis	266,186	265,370	265,954	265,099
<b>Earnings per common share</b> <i>(in dollars)</i>				
Basic	\$ 0.58	\$ 0.59	\$ 1.72	\$ 1.53
Diluted	\$ 0.58	\$ 0.59	\$ 1.71	\$ 1.53

In certain circumstances, the preferred shares referred to in Note 4 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.

## 8. Segmented information

THREE MONTHS ENDED SEPTEMBER 30 2004	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Income	\$ 295,604	\$ 206,182	\$ 25,332	\$ 527,118
Expenses	122,820	141,131	17,907	281,858
Earnings before undernoted	\$ 172,784	\$ 65,051	\$ 7,425	245,260
Interest expense				18,714
Income before income taxes and non-controlling interest				226,546
Income taxes				66,969
Non-controlling interest				571
Net income				159,006
Preferred dividends				5,175
Net income available to common shareholders				\$ 153,831
2003	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Income	\$ 269,547	\$ 194,611	\$ 10,218	\$ 474,376
Expenses	106,041	134,280	(923)	239,398
Earnings before undernoted	\$ 163,506	\$ 60,331	\$ 11,141	234,978
Interest expense				19,302
				215,676
Dilution gain				14,820
Income before income taxes				230,496
Income taxes				69,899
Net income				160,597
Preferred dividends				5,175
Net income available to common shareholders				\$ 155,422
NINE MONTHS ENDED SEPTEMBER 30 2004	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Total assets under management and administration	\$ 44,685,125	\$ 42,054,767	\$ 7,859,278	\$ 94,599,170
Income	\$ 897,956	\$ 627,248	\$ 45,800	\$ 1,571,004
Expenses	381,885	433,137	27,953	842,975
Earnings before undernoted	\$ 516,071	\$ 194,111	\$ 17,847	728,029
Interest expense				55,968
Income before income taxes and non-controlling interest				672,061
Income taxes				201,499
Non-controlling interest				731
Net income				469,831
Preferred dividends				15,525
Net income available to common shareholders				\$ 454,306

## 8. Segmented information *(continued)*

2003	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Total assets under management and administration	\$ 40,794,541	\$ 36,123,175	\$ 676,462	\$ 77,594,178
Income	\$ 797,605	\$ 567,949	\$ 23,857	\$ 1,389,411
Expenses	317,627	407,519	(2,625)	722,521
Earnings before undernoted	\$ 479,978	\$ 160,430	\$ 26,482	666,890
Interest expense				61,754
				605,136
Dilution gain				14,820
Income before income taxes				619,956
Income taxes				199,912
Net income				420,044
Preferred dividends				15,525
Net income available to common shareholders				\$ 404,519

## 9. 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.

	SEPTEMBER 2004	DECEMBER 2003
Balance at beginning of period	\$ 38,337	\$ 69,786
Utilized during the period	(12,793)	(6,617)
Change in estimate	—	(24,832)
Balance at end of period	\$ 25,544	\$ 38,337

Of the \$25.5 million balance, \$5.8 million relates to termination benefits, \$3.8 million relates to contract termination costs and the remaining \$15.9 million relates to decommissioning of systems and other expenses. The balance includes \$5.1 million of liabilities related to completed activities and \$20.4 million related to projects in process.

## 10. Acquisition of Investment Planning Counsel

On May 10, 2004, the Company acquired 74.7% of the outstanding common shares of Investment Planning Counsel Inc. (Investment Planning Counsel), a Canadian financial services company. The results of its operations have been included in the consolidated financial statements since that date.

The aggregate purchase price was \$100.3 million, including \$75.9 million of cash, including transaction costs, and common shares valued at \$24.4 million. The value of the 734,796 common shares issued was determined based on the weighted-average market price of the Company's shares over the two-day period before and after the terms of the acquisition were agreed to and announced.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is preliminary and based on the Company's best estimates. The final purchase price allocations will be completed as soon as the Company has gathered all the significant information considered necessary in order to finalize this allocation.

Fair value of assets acquired:	
Cash and cash equivalents	\$ 12,035
Deferred selling commissions	7,837
Other assets	26,818
Finite-life intangible assets	32,643
	79,333
Less fair value of liabilities assumed and non-controlling interest:	
Deposits	20,564
Other liabilities	52,052
Future income taxes	7,583
Long-term debt	23,044
Non-controlling interest	396
	103,639
Fair value of net assets acquired	(24,306)
Goodwill and other intangible assets	124,579
Total purchase consideration	\$ 100,273

Included in Other liabilities are accruals for contract termination costs of \$26.7 million which were paid during the second quarter, and other restructuring costs of \$9.4 million related to the acquisition.

## 11. Contingencies

In November 2003, the Ontario Securities Commission (“OSC” or the “Commission”), together with the Mutual Fund Dealers Association of Canada (“MFDA”) and the Investment Dealers Association of Canada (“IDA”), undertook a review of “late trading” and “market timing” activities in the mutual fund industry. Each of Investors Group and Mackenzie has provided detailed information to the regulators in the context of these reviews and continue to cooperate with them in respect of these matters.

On September 20, 2004, staff of the OSC advised Investors Group that they were of the view that certain accounts had been permitted to engage in a frequent trading market timing strategy in certain funds managed by I.G. Investment Management, Ltd. and that such trading, in staff’s view, was harmful to the economic interests of long-term unitholders in those funds. Staff of the OSC indicated that, as a result, they were contemplating the commencement of proceedings before the Commission. The MFDA has since expressed similar concerns to Investors Group. Investors Group is in discussions with OSC and MFDA staff with respect to these matters. Staff of the OSC made similar announcements regarding three other fund companies and indicated that its review of other companies in the industry was continuing. OSC staff have also said that their review has revealed no evidence of “late trading”; in addition, they had found no evidence of any “market timing” by any insiders of Investors Group and the other three companies.

On or about October 26, 2004, a motion for authorization to institute a class action was commenced in the Quebec Superior Court against a subsidiary of Investors Group and five other mutual fund companies claiming damages and other remedies in respect of alleged market timing transactions. Investors Group has not yet had an opportunity to review and consider the allegations contained in this claim.

The Company cannot determine the outcome of these actions and accordingly is unable to reasonably estimate their impact. As such, no provision has been recorded in the financial statements.

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## STOCK EXCHANGE LISTING

**Toronto Stock Exchange**  
Shares of IGM Financial Inc.  
are listed on the Toronto  
Stock Exchange under the  
following listings:  
Common Shares: IGI  
First Preferred Shares, Series A:  
IGI.PR.A

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Visit our websites at  
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