

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003 *(In thousands of dollars, except shares and per share amounts)*

1. Summary of significant accounting policies

The Consolidated Financial Statements of IGM Financial Inc. (Company) have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. Key components of the financial statements requiring management to provide estimates include goodwill, intangible assets, income taxes, deferred selling commissions and employee future benefits. Actual results may differ from such estimates.

During the second quarter of 2004, the Company received shareholder and regulatory approval to change its name from Investors Group Inc. to IGM Financial Inc.

BASIS OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances.

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 December 31, 2004 and the results of its operations and cash flows from the date of acquisition.

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

REVENUE RECOGNITION

Management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Administration fees are also recognized on an accrual basis when the service is performed. Distribution revenue derived from mutual fund, insurance and securities transactions are recognized on a trade date basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis.

SECURITIES

Investment securities comprise equity securities held for long-term investment. Common and preferred shares are carried at original cost plus declared dividends. Securities are written down to their fair value when an other than temporary decline in value is identified. Trading securities related to the Company's derivative activities are carried at fair value. Gains and losses on disposal of investment securities and changes in the fair value of trading securities are recorded in Net investment income and other in the Consolidated Statements of Income.

LOANS

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

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

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

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

SECURITIZATIONS

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

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

For all transfers of loans, the gains or losses and the servicing fee revenue are reported in Net investment income and other in the Consolidated Statements of Income. The retained interests in the securitized loans are recorded in Other assets and the servicing liability is recorded in Other liabilities on the Consolidated Balance Sheets.

DEFERRED SELLING COMMISSIONS

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

OFFICE PREMISES

Office premises, which are included in Other assets, are recorded at cost of \$236.3 million (2003 – \$223.7 million), less accumulated amortization of \$161.6 million (2003 – \$142.7 million). The properties and related equipment and furnishings are amortized on a straight-line basis over their estimated useful lives.

GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite lives are reviewed at least annually for impairment and written down for impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives.

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

EMPLOYEE FUTURE BENEFITS

The Company maintains a number of employee future benefit plans. These plans include a funded defined benefit pension plan for substantially all eligible employees, an unfunded supplementary executive retirement plan (SERP) for certain executive officers, and an unfunded post-retirement health care and life insurance plan for eligible retirees.

The defined benefit pension plan provides pensions based on length of service and final average earnings. An actuarial valuation is performed for funding purposes every three years. The most recent actuarial valuation was completed as at December 31, 2001 and the next required valuation will be completed based on a measurement date of December 31, 2004.

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about the expected long-term rate of return on plan assets, discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. The discount rate used to value liabilities is based on market rates at the measurement date. Plan assets are valued at fair value for purposes of calculating the expected long-term rate of return. The defined benefit pension plan is invested in proprietary equity, balanced and fixed income mutual funds.

Benefit expense or income, which is included in Non-commission expense, includes the cost of pension or other post-retirement benefits provided in respect of the current year's service, interest cost on the accrued benefit liability, the expected return on plan assets and the amortization of actuarial gains or losses over the expected average remaining service life of employees. These periods range from 11 years to 16 years for the various benefit plans.

The accrued benefit asset or liability represents the cumulative difference between the expense and funding contributions and is included in Other assets or Other liabilities.

INCOME TAXES

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

EARNINGS PER SHARE

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

STOCK-BASED COMPENSATION 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 (Note 14). 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 since 2002. 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.

The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in Contributed surplus are added to Share capital.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking activities. The swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based. Prior to January 1, 2004, the Company designated its interest rate swaps as hedges of the relevant assets or relevant liabilities and accounted for those swaps that were demonstrated as effective on the accrual basis. Interest income or interest expense was adjusted to include the payments under the interest rate swaps or interest bearing assets and liabilities, respectively. The related amount payable to or receivable from counterparties was included in Other liabilities or Other assets, respectively.

Effective January 1, 2004, the Company adopted the recommendations of CICA Accounting Guideline 13 – Hedging Relationships (AcG-13) on a prospective basis. 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. The Company reassessed its hedging relationships as at January 1, 2004 and determined that its interest rate swaps on mortgage banking activities did not qualify for hedge accounting under AcG-13. The impact on the Consolidated Financial Statements was not material.

Derivatives that do not qualify for hedge accounting are carried at fair value on the Consolidated Balance Sheets, and changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Income. Non-qualifying derivatives continue to be utilized on a basis consistent with the risk management policies of the Company and are monitored by the Company for effectiveness as economic hedges even if the specific hedge accounting requirements of AcG-13 are not met.

If a designated hedged item is sold prior to the termination of the related derivative instruments or it is no longer probable that the sale will occur at the date originally anticipated, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

FUTURE ACCOUNTING CHANGES

Financial instruments – disclosure and presentation

Effective for fiscal years beginning on or after November 1, 2004, CICA 3860, Financial Instruments – Disclosure and Presentation was amended to require obligations that can be settled at the issuer's option by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. On January 1, 2005, the Company will adopt the amended standard retroactively with restatement of prior periods. The Company's preferred shares will be reclassified from shareholders' equity to liabilities and the preferred dividends will be reclassified to operating expenses in the Consolidated Statements of Income. The change will not have any impact on basic earnings per share or net income available to common shareholders since preferred dividends are currently deducted from net income in determining these measures.

COMPARATIVE FIGURES

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

2. Securities

	2004		2003	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Preferred shares	\$ —	\$ —	\$ 2,263	\$ 2,369
Common shares	92,459	218,007	77,564	213,976
Investments in mutual funds	33,851	36,111	26,405	27,687
	<u>\$ 126,310</u>	<u>\$ 254,118</u>	<u>\$ 106,232</u>	<u>\$ 244,032</u>

3. Loans

	TERM TO MATURITY			2004 TOTAL	2003 TOTAL
	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS		
Residential mortgages	\$ 133,706	\$ 170,299	\$ 1,915	\$ 305,920	\$ 346,476
Commercial mortgages	4,016	11,097	—	15,113	16,956
	137,722	181,396	1,915	321,033	363,432
Personal loans	146,644	23,005	23,780	193,429	186,075
	<u>\$ 284,366</u>	<u>\$ 204,401</u>	<u>\$ 25,695</u>	514,462	549,507
Less: General allowance				17,810	21,495
				<u>\$ 496,652</u>	<u>\$ 528,012</u>
Impaired loans included above				\$ 369	\$ 2,192
Less: General allowance				17,810	21,495
				<u>\$ (17,441)</u>	<u>\$ (19,303)</u>

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

Balance, beginning of year	\$ 21,495	\$ 21,542
Write-offs	(100)	(121)
Recoveries	204	214
Reversal of provision for credit losses	(3,789)	(140)
Balance, end of year	<u>\$ 17,810</u>	<u>\$ 21,495</u>

4. Securitizations

	2004		2003	
	PRINCIPAL AMOUNT SECURITIZED	NET GAIN	PRINCIPAL AMOUNT SECURITIZED	NET GAIN
Commercial paper conduit transactions	\$ 190,991	\$ 2,460	\$ 121,604	\$ 1,412
Mortgage-backed security transactions	\$ 17,359	\$ 16	\$ 5,727	\$ 3

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

The key economic assumptions used to value the retained interests at the date of securitization issuances for transactions completed during 2004 and 2003 were as follows:

2004	CP CONDUIT TRANSACTIONS	MBS TRANSACTIONS
Weighted-average		
Remaining service life (in years)	3.1	5.0
Interest rate	4.97%	5.04%
Coupon rate of securities issued	4.07%	3.99%
Prepayment rate	15.00%	18.90%
Discount rate	4.51%	4.35%
Servicing fees	0.25%	0.23%
Expected credit losses	0.05%	N/A
2003		
Weighted-average		
Remaining service life (in years)	2.4	5.0
Interest rate	5.25%	4.93%
Coupon rate of securities issued	4.29%	4.32%
Prepayment rate	15.00%	— ⁽¹⁾
Discount rate	5.15%	4.60%
Servicing fees	0.25%	0.15%
Expected credit losses	0.05%	—

⁽¹⁾ Mortgages securitized by the Company through a MBS structure had no prepayment privileges.

At December 31, 2004, the fair value of the total retained interests was \$19.7 million (2003 – \$24.5 million). As part of the CP conduit transactions, the Company enters into interest rate swaps with the CP conduit counterparty. At December 31, 2004, the aggregate fair value of these interest rate swaps, which is included in the fair value of total retained interests above, was \$6.7 million (2003 – \$9.1 million). The aggregate notional amount at December 31, 2004 was \$346.6 million (2003 – \$335.6 million). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

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

	2004	2003
Mortgages	\$ 869,141	\$ 972,927
Personal loans	220,733	215,969
	1,089,874	1,188,896
Less: Securitized loans serviced	593,222	660,884
Total on-balance sheet loans	\$ 496,652	\$ 528,012
Proceeds from new securitizations	\$ 207,110	\$ 126,747
Cash flows received on retained interests	\$ 13,975	\$ 5,919

5. Investment in affiliate

	2004	2003
Carrying value, beginning of year	\$ 460,655	\$ 320,988
Investment	–	100,000
Share of earnings	71,056	54,505
Dividends	(25,884)	(19,818)
Dilution gain	–	14,820
Foreign currency translation and other adjustments	(15,111)	(9,840)
Carrying value, end of year	\$ 490,716	\$ 460,655
Share of equity, end of year	\$ 351,487	\$ 325,923
Fair value, end of year	\$ 1,008,923	\$ 859,663

On July 10, 2003, the Company purchased, by way of private placement, 2,662,690 common shares of Great-West Lifeco Inc. (Lifeco), an affiliate of the Company, for total consideration of \$100 million in support of Lifeco's acquisition of Canada Life Financial Corporation (Canada Life). As a result of this investment and the common shares issued by Lifeco as part of its acquisition of Canada Life, a dilution gain of \$14.8 million (net of \$6.7 million of goodwill disposed) was recognized in 2003.

On September 24, 2004, the shareholders of Lifeco approved a sub-division of Lifeco's common shares on a two-for-one basis. The Company currently holds 37,787,388 (2003 – 37,787,388) shares of Lifeco, which represents an equity interest of 4.2% (2003 – 4.2%).

6. Other assets

	2004	2003
Accounts and other receivables	\$ 172,580	\$ 129,887
Office premises	74,693	80,989
Deferred and prepaid expenses	63,735	60,651
Accrued benefit asset <i>(Note 10)</i>	42,325	40,892
Other	18,384	21,406
	\$ 371,717	\$ 333,825

7. Goodwill and intangible assets

During the fourth quarter of 2004, the Company performed an evaluation of the fair value of the assets acquired and liabilities assumed on the acquisition of Investment Planning Counsel (Note 21). The amount assigned to intangible assets represents the fair value of mutual fund management and distribution contracts acquired. The management contracts have indefinite useful lives and are therefore not subject to amortization. The distribution contracts have an estimated remaining useful life of 19 years and are amortized on a straight-line basis. Goodwill acquired during the year has not yet been allocated to the Company's reportable segments. The final goodwill allocation will be completed as soon as the Company has gathered all the significant information considered necessary in order to finalize this allocation.

The changes in the carrying amount of goodwill are as follows:

	2004			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,346,245	\$ 923,590	\$ –	\$ 2,269,835
Acquired during the year	–	–	101,946	101,946
Goodwill adjustment	–	–	(190)	(190)
Balance, end of year	\$ 1,346,245	\$ 923,590	\$ 101,756	\$ 2,371,591

	2003			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,346,245	\$ 919,420	\$ –	\$ 2,265,665
Acquired during the year	–	4,170	–	4,170
Balance, end of year	\$ 1,346,245	\$ 923,590	\$ –	\$ 2,269,835

The components of other intangible assets are as follows:

	2004			
	CARRYING VALUE	ACQUIRED DURING THE YEAR	ACCUMULATED AMORTIZATION	NET CARRYING VALUE
Finite-life intangible assets				
Distribution contracts	\$ -	\$ 24,421	\$ 1,109	\$ 23,312
Indefinite-life intangible assets				
Mutual fund management contracts	591,580	17,184	-	608,764
Trade names	268,368	-	-	268,368
	859,948	17,184	-	877,132
	\$ 859,948	\$ 41,605	\$ 1,109	\$ 900,444
	2003			
	CARRYING VALUE	ACQUIRED DURING THE YEAR	ACCUMULATED AMORTIZATION	NET CARRYING VALUE
Indefinite-life intangible assets				
Mutual fund management contracts	\$ 591,580	\$ -	\$ -	\$ 591,580
Trade names	268,368	-	-	268,368
	\$ 859,948	\$ -	\$ -	\$ 859,948

At December 31, 2002, the Company owned 69.1% of the common shares of Winfund Software Corp. (Winfund). On February 26, 2003, the Company acquired the remaining outstanding common shares of Winfund for total cash consideration of \$4.7 million. The excess of the consideration paid over the fair value of the identifiable net assets acquired of \$4.2 million was recorded as goodwill and was allocated to the Mackenzie reportable segment.

8. Deposits and certificates

Included in the assets of the Consolidated Balance Sheets are cash and investments amounting to \$711.0 million (2003 – \$729.5 million) set aside in respect of the deposits of Investors Group Trust Co. Ltd. and M.R.S. Trust Company, and the certificates issued by Investors Syndicate Limited.

	TERM TO MATURITY				2004 TOTAL	2003 TOTAL
	DEMAND	1 YEAR OR LESS	1 - 5 YEARS	OVER 5 YEARS		
Deposits	\$ 465,320	\$ 101,793	\$ 132,811	\$ 2,744	\$ 702,668	\$ 719,945
Certificates	-	729	2,825	4,728	8,282	9,511
	\$ 465,320	\$ 102,522	\$ 135,636	\$ 7,472	\$ 710,950	\$ 729,456

9. Other liabilities

	2004	2003
Accounts payable and accrued liabilities	\$ 308,238	\$ 260,468
Taxes payable	102,884	98,628
Dividends and interest payable	93,943	81,996
Accrued benefit liabilities (Note 10)	45,425	42,199
Restructuring costs (Note 22)	13,833	38,337
Other	40,694	41,192
	<u>\$ 605,017</u>	<u>\$ 562,820</u>

The Company reclassified \$4.7 million (2003 – \$18.0 million) of restructuring costs relating to completed projects to Accounts payable and accrued liabilities.

10. Employee future benefits

The Company maintains a number of employee future benefit plans. These plans include a funded defined benefit pension plan for substantially all eligible employees, an unfunded supplementary executive retirement plan (SERP) for certain executive officers, and an unfunded post-retirement health care and life insurance plan for eligible retirees.

	2004			2003		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	\$ 154,767	\$ –	\$ –	\$ 140,325	\$ –	\$ –
Employee contributions	2,633	–	–	2,568	–	–
Benefits paid	(6,639)	–	–	(6,059)	–	–
Actual return on plan assets	16,875	–	–	17,933	–	–
Balance, end of year	167,636	–	–	154,767	–	–
Accrued benefit obligation						
Balance, beginning of year	106,573	11,515	30,329	94,656	10,476	23,681
Benefits paid	(6,639)	(722)	(1,025)	(6,059)	(722)	(914)
Current service cost	3,787	351	1,459	3,044	273	1,490
Employee contributions	2,633	–	–	2,568	–	–
Interest cost	7,027	925	2,111	6,758	764	1,730
Actuarial losses	6,407	3,167	1,588	5,606	724	4,342
Balance, end of year	119,788	15,236	34,462	106,573	11,515	30,329
Funded status plan						
surplus (deficit)	47,848	(15,236)	(34,462)	48,194	(11,515)	(30,329)
Unamortized net actuarial						
(gains) losses	(5,523)	1,148	3,125	(7,302)	(1,935)	1,580
Accrued benefit						
asset (liability)	\$ 42,325	\$ (14,088)	\$ (31,337)	\$ 40,892	\$ (13,450)	\$ (28,749)

The asset allocation by asset category of the defined benefit pension plan is equity securities 56% (2003 – 55%), fixed income securities 42% (2003 – 44%) and cash equivalents 2% (2003 – 1%).

	2004			2003		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Benefit (income) expense was determined as follows:						
Current service cost	\$ 3,787	\$ 351	\$ 1,459	\$ 3,044	\$ 273	\$ 1,490
Interest cost on accrued benefit obligation	7,027	925	2,111	6,758	764	1,730
Expected return on plan assets	(10,694)	–	–	(9,701)	–	–
Amortization of net actuarial (gains) losses	(1,553)	83	43	(1,075)	(174)	(225)
	\$ (1,433)	\$ 1,359	\$ 3,613	\$ (974)	\$ 863	\$ 2,995
Significant weighted-average actuarial assumptions:						
Discount rate	6.25%	6.25%	6.50%	6.60%	6.50%	6.75%
Expected long-term rate of return on plan assets	7.00%	N/A	N/A	7.00%	N/A	N/A
Rate of compensation increase	6.10%	6.10%	N/A	6.10%	6.10%	N/A
Health care cost trend rate ⁽¹⁾	N/A	N/A	10.00%	N/A	N/A	11.00%

⁽¹⁾ Trending to 5.00% in 2010 and remaining at that rate thereafter.

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued post-retirement benefit obligation of \$6.2 million as at December 31, 2004 and an increase in the 2004 post-retirement benefit expense of \$0.7 million. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued post-retirement benefit obligation of \$4.7 million as at December 31, 2004 and a decrease in the 2004 post-retirement benefit expense of \$0.6 million.

11. Income taxes

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

	2004	2003
Income taxes at federal and provincial statutory rates	36.20%	37.92%
Effect of:		
Dividend income	(0.22)	(0.24)
Net capital gains and losses	(1.26)	(0.86)
Dilution gain <i>(Note 5)</i>	–	(0.69)
Share of earnings of affiliate <i>(Note 5)</i>	(2.98)	(2.49)
Impact of rate changes on future income taxes related to indefinite life intangibles	–	2.89
Tax on large corporations	(0.01)	0.02
Lower effective rate of tax on income not subject to tax in Canada and other items	(1.73)	(1.72)
Effective income tax rate	30.00%	34.83%
Components of income tax expense are:		
Current income taxes	\$ 219,487	\$ 225,870
Future income taxes	45,482	73,328
	\$ 264,969	\$ 299,198

Future income taxes consist of the following taxable temporary differences:

	2004	2003
Future income tax assets		
Accrued benefit liabilities	\$ 17,645	\$ 16,269
Allowance for credit losses	6,607	7,902
Investment revaluations	9,434	11,103
Non-capital loss carryforwards	59,229	66,934
Restructuring costs	5,136	13,935
Other	43,299	43,402
	141,350	159,545
Future income tax liabilities		
Accrued benefit asset	15,059	14,839
Deferred selling commissions	305,670	275,194
Intangible assets	164,811	155,006
Unrealized gains on securities	59,707	80,522
Other	18,951	9,056
	564,198	534,617
Future income taxes	\$ 422,848	\$ 375,072

As at December 31, 2004, the Company has non-capital losses of \$112.7 million (2003 – \$4.1 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2007 – \$3.4 million; 2008 – \$3.5 million; 2009 – \$6.5 million; 2010 – \$53.8 million; 2013 – \$3.0 million, and 2014 – \$42.5 million.

12. Long-term debt

	RATE	MATURITY	2004	2003
Debtures in Series ⁽¹⁾				
1997	6.65%	December 13, 2027	\$ 125,000	\$ 125,000
2001	6.75%	May 9, 2011	450,000	450,000
2001	7.45%	May 9, 2031	150,000	150,000
2002	7.00%	December 31, 2032	175,000	175,000
2003	6.58%	March 7, 2018	150,000	150,000
2003	7.11%	March 7, 2033	150,000	150,000
Note payable to related party				
Power Financial Corporation	10.60%	January 16, 2006	26,795	28,580
Floating Bankers' Acceptance ⁽²⁾	–	May 30, 2006	–	175,000
			\$ 1,226,795	\$ 1,403,580

⁽¹⁾ The debtures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.

⁽²⁾ A syndicate of banks provided the Company with a non-revolving credit facility bearing interest that fluctuated with Canadian bankers' acceptances. The Company repaid the remaining \$175 million of this credit facility in 2004 (2003 – \$275 million).

Interest expense relating to long-term debt was \$90.9 million (2003 – \$93.6 million).

The annual principal payments in each of the next five years are: 2005 – \$1.8 million; 2006 – \$25.0 million; 2007 to 2009 – nil.

13. Share capital

AUTHORIZED

Unlimited number of:

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

13. Share capital *(continued)*

ISSUED AND OUTSTANDING

	2004		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 year	264,089,791	\$ 1,446,063	263,845,333	\$ 1,441,063
Issued on acquisition of Investment Planning Counsel <i>(Note 21)</i>	734,796	24,366	–	–
Issued under Stock Option Plan <i>(Note 14)</i>	529,893	9,138	356,758	5,614
Purchased for cancellation	(756,100)	(4,162)	(112,300)	(614)
Balance, end of year	264,598,380	\$ 1,475,405	264,089,791	\$ 1,446,063

PREFERRED SHARES

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

NORMAL COURSE ISSUER BID

The Company commenced a normal course issuer bid, effective for one year, on February 22, 2004. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares as at January 31, 2004. As at December 31, 2004, 756,100 shares were purchased at a cost of \$26.9 million and the premium paid to purchase the shares 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 December 31, 2003, 112,300 shares were purchased at a cost of \$2.7 million and the premium paid to purchase the shares was charged to Retained earnings.

14. Stock-based compensation

STOCK OPTION PLAN

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees and financial planning consultants at prices not less than the fair market value of such shares immediately prior to the grant date. The options are subject to time and/or performance vesting conditions set out at the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2004, 18,378,448 (2003 – 18,908,341) common shares were reserved for issuance under the Plan.

During 2004, the Company granted 1,522,500 options to employees (2003 – 1,450,594) and 88,750 options to financial planning consultants (2003 – 86,500). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of options granted during the year ended December 31, 2004 has been estimated at \$7.19 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 \$2.9 million (2003 – \$0.2 million).

If the Company had used the fair value method of accounting during 2003 for stock options granted to employees, compensation expense of \$1.1 million would have been recorded and the Company's results would have been as follows:

Proforma net income available to common shareholders	\$ 538,010
Proforma earnings per common share – basic	\$ 2.04
Proforma earnings per common share – diluted	\$ 2.03

	2004		2003	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	6,303,023	\$ 21.21	5,536,834	\$ 19.55
Granted	1,611,250	33.82	1,537,094	25.72
Exercised	(529,893)	17.12	(356,758)	15.73
Cancelled	(141,312)	25.38	(414,147)	20.54
Balance, end of year	7,243,068	\$ 24.23	6,303,023	\$ 21.21
Exercisable, end of year	2,752,397	\$ 19.80	2,292,297	\$ 18.99

OPTIONS OUTSTANDING AT DECEMBER 31, 2004	EXPIRY DATE	EXERCISE PRICE	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2005	8.66	131,864	131,864
	2006	8.89	–	–
	2007	12.98 – 13.54	55,920	55,920
	2008	18.85 – 20.99	77,400	77,400
	2009	18.99 – 24.27	451,570	417,070
	2010	17.00	56,000	40,400
	2011	19.83 – 22.78	3,358,547	1,798,449
	2012	27.81	101,840	36,664
	2013	25.66 – 28.66	1,433,177	194,630
	2014	33.52 – 35.77	1,576,750	–
			7,243,068	2,752,397

SHARE PURCHASE PLANS

Under the Company's share purchase plans, eligible employees and financial planning consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled \$4.4 million (2003 – \$3.0 million).

14. Stock-based compensation *(continued)*

DEFERRED SHARE UNIT PLAN

The Company has a deferred share unit plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the Plan, directors are required to receive 50% of their annual retainer in the form of deferred share units and may elect to receive the balance of their annual retainer in cash or deferred share units. Directors may elect to receive their attendance fees in a combination of deferred share units and cash. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (the "value of deferred share unit"). A director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. Deferred share units are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2004, the fair value of the deferred share units outstanding was \$2.9 million (2003 – \$1.6 million).

15. Derivative financial instruments

The Company enters into derivative contracts which are negotiated in the over-the-counter market with Schedule I and Schedule II Chartered bank counterparties on a diversified basis. In all cases the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific securities at a fixed price at a future date. Forward sales are contractual agreements to sell a financial instrument on a future date at a specified price.

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

The following table summarizes the Company's derivative financial instruments at December 31:

	NOTIONAL AMOUNT			CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
	1 YEAR OR LESS	1 - 5 YEARS	TOTAL		
2004					
Swaps	\$ 66,700	\$ 146,833	\$ 213,533	\$ 255	\$ (4,097)
Options purchased	24,336	23,179	47,515	1,200	1,200
Options written	29,364	31,106	60,470	–	(16,560)
Forward sales	10,878	5,100	15,978	120	(2,365)
	\$ 131,278	\$ 206,218	\$ 337,496	\$ 1,575	\$ (21,822)
2003					
Swaps	\$ 100,000	\$ 150,500	\$ 250,500	\$ –	\$ (7,502)
Options purchased	14,571	47,515	62,086	770	770
Options written	17,528	60,470	77,998	–	(13,039)
Forward sales	–	16,545	16,545	1,404	(391)
	\$ 132,099	\$ 275,030	\$ 407,129	\$ 2,174	\$ (20,162)

16. Fair value of financial instruments

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

	2004		2003	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 864,990	\$ 864,990	\$ 969,315	\$ 969,315
Securities	126,310	254,118	106,232	244,032
Loans	496,652	499,457	528,012	531,142
Accounts and other receivables	172,580	172,580	129,887	129,887
Total financial assets	\$ 1,660,532	\$ 1,791,145	\$ 1,733,446	\$ 1,874,376
Liabilities				
Deposits and certificates	\$ 710,950	\$ 717,184	\$ 729,456	\$ 738,454
Other financial liabilities	494,612	494,612	450,343	450,343
Long-term debt	1,226,795	1,377,496	1,403,580	1,518,823
Total financial liabilities	\$ 2,432,357	\$ 2,589,292	\$ 2,583,379	\$ 2,707,620
Off-balance sheet derivatives <i>(Note 15)</i>	\$ -	\$ (17,725)	\$ -	\$ (20,162)

Fair value is determined using the following methods and assumptions:

The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, accounts and other receivables, and other financial liabilities.

Securities are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used.

Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk.

Deposits and certificates are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is determined by reference to current market prices for debentures and notes payable with similar terms and risks.

Derivative financial instruments fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

17. Earnings per common share

	2004	2003
Earnings		
Net income	\$ 617,096	\$ 559,781
Preferred dividends	20,700	20,700
Net income available to common shareholders	\$ 596,396	\$ 539,081
Number of common shares (in thousands)		
Average number of common shares outstanding	264,431	263,915
Add:		
– Potential exercise of outstanding stock options	1,579	1,259
Average number of common shares outstanding		
– Diluted basis	266,010	265,174
Earnings per common share (in dollars)		
Basic	\$ 2.26	\$ 2.04
Diluted	\$ 2.24	\$ 2.03

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

18. Contingencies, commitments and guarantees

CONTINGENCIES

On December 16, 2004 the Ontario Securities Commission (OSC) and the Manitoba Securities Commission (MSC) approved a settlement agreement between I.G. Investment Management, Ltd. (IGIM) and the OSC regarding trading by an institutional client of Investors Group Inc. (IG) in mutual funds managed by IGIM. IG agreed to provide compensation of \$19.2 million, plus interest at 5% per annum from the settlement date to the approval of the plan of distribution, to affected unitholders. Also on December 16, 2004 a hearing panel of the Mutual Fund Dealers Association of Canada (MFDA) approved a settlement agreement between Investors Group Financial Services Inc. and the MFDA regarding the same matter, providing for a compensation of \$2.65 million, plus interest on the foregoing basis, to affected unitholders and payment of a fine of \$2.65 million to the MFDA. The compensations are to be made pursuant to a distribution plan to be developed by IG together with an independent consultant and approved by the OSC and the MSC. The Company recorded a \$19.2 million after-tax charge to income in the fourth quarter to reflect these settlements and related costs.

The Company is subject to legal actions, including class actions, arising in the normal course of its business. Two class actions related to alleged market timing trading activity in mutual funds of the Company have been commenced. The Company entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

COMMITMENTS

The Company is committed to the following annual lease payments under its operating leases: 2005 – \$38.8 million; 2006 – \$33.0 million; 2007 – \$29.0 million; 2008 – \$22.6 million; 2009 – \$14.6 million; and 2010 and thereafter – \$25.6 million.

GUARANTEES

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

In the normal course of operations, the Company executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Company has also agreed to indemnify its directors and officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Company could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Company has not made any payments under such indemnification agreements.

19. Related party transactions

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

During 2004 and 2003, the Company provided to and received from Great-West, a member of the Power Financial Corporation group of companies, certain administrative services. The Company distributes life insurance and disability insurance products under a distribution agreement with Great-West and Canada Life and received \$17.8 million in distribution fees (2003 – \$17.7 million). London Life distributes certain mutual funds of the Company.

During 2004, the Company sold residential mortgage loans to Great-West and London Life for \$76.9 million (2003 – \$160.7 million).

Mackenzie Financial Corporation (Mackenzie), a subsidiary of the Company, entered into an arrangement involving a wholly-owned subsidiary of Mackenzie and an entity managed by Mackenzie. As part of this arrangement, the parties have the legal right and intent to settle on a net basis certain related party financial assets and liabilities. These assets and liabilities, which totalled \$3.7 billion at December 31, 2004 (2003 – \$2.2 billion), have been offset and, accordingly, have no impact on the Consolidated Balance Sheets. During the year, Mackenzie earned investment income of \$1.8 million (2003 – \$0.8 million) and incurred interest expense of \$1.8 million (2003 – \$0.8 million) related thereto.

20. Segmented information

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

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

The results of the reportable segments reflect the Company's internal financial reporting systems.

2004	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 830,273	\$ 645,511	\$ 15,873	\$ 1,491,657
Administration	156,293	140,498	2,821	299,612
Distribution	94,189	35,599	34,683	164,471
Net investment income and other	123,322	15,841	24,168	163,331
	1,204,077	837,449	77,545	2,119,071
Operating expenses				
Commissions	264,050	320,152	32,504	616,706
Non-commission	273,766	255,651	14,839	544,256
	537,816	575,803	47,343	1,160,962
Earnings before undernoted	\$ 666,261	\$ 261,646	\$ 30,202	958,109
Interest expense				(74,893)
Income before income taxes and non-controlling interest				883,216
Income taxes				264,969
Income before non-controlling interest				618,247
Non-controlling interest				1,151
Net income				617,096
Preferred dividends				20,700
Net income available to common shareholders				\$ 596,396
Total assets	\$ 2,670,678	\$ 3,093,298	\$ 709,235	\$ 6,473,211

2003	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 741,396	\$ 558,217	\$ (3,499)	\$ 1,296,114
Administration	138,324	148,453	–	286,777
Distribution	91,898	39,584	–	131,482
Net investment income and other	103,948	19,954	35,906	159,808
	1,075,566	766,208	32,407	1,874,181
Operating expenses				
Commissions	191,378	283,957	–	475,335
Non-commission	239,259	257,357	(2,474)	494,142
	430,637	541,314	(2,474)	969,477
Earnings before undernoted	\$ 644,929	\$ 224,894	\$ 34,881	904,704
Restructuring reversal				24,832
Interest expense				(85,377)
				844,159
Dilution gain				14,820
Income before income taxes				858,979
Income taxes				299,198
Net income				559,781
Preferred dividends				20,700
Net income available to common shareholders				\$ 539,081
Total assets	\$ 2,593,016	\$ 3,166,259	\$ 532,421	\$ 6,291,696

21. Acquisition of Investment Planning Counsel

On May 10, 2004, the Company acquired 74.7% of the outstanding common shares of 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 \$99.0 million, consisting of \$74.6 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 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.

21. Acquisition of Investment Planning Counsel *(continued)*

	2004	
Fair value of assets acquired:		
Cash and cash equivalents	\$	12,035
Deferred selling commissions		7,837
Future income taxes		2,057
Other assets		27,216
Management contracts		17,184
Distribution contracts		24,421
		90,750
Less fair value of liabilities assumed:		
Deposits		20,564
Other liabilities		50,105
Long-term debt		23,044
		93,713
Fair value of net assets acquired		(2,963)
Goodwill		101,946
Total purchase consideration	\$	98,983

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 \$5.5 million related to the acquisition.

22. Restructuring

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

In the fourth quarter of 2003, the Company changed its estimate for restructuring resulting in a \$24.8 million reversal. The change in estimate resulted from facts and circumstances occurring subsequent to the original charges.

	2004		2003	
Balance at beginning of year	\$	38,337	\$	69,786
Utilized during the year		(24,504)		(6,617)
Change in estimate		-		(24,832)
Balance at end of year	\$	13,833	\$	38,337

Of the \$13.8 million balance (2003 – \$38.3 million) which is reported in Other liabilities in the Consolidated Balance Sheets, \$0.4 million relates to termination benefits (2003 – \$9.6 million), nil relates to contract termination costs (2003 – \$7.5 million), and \$13.4 million relates to decommissioning of systems and other expenses (2003 – \$21.2 million). The balance at December 31, 2004 consists of two remaining projects which are expected to be substantially completed by the fourth quarter of 2005.