

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. (IGM Financial or the Company) for the years ended December 31, 2005 and 2004. Commentary in the MD&A as at and for the year ended December 31, 2005 is as of February 16, 2006.

Basis of Presentation and Summary of Accounting Policies

The Consolidated Financial Statements of IGM Financial, which are the basis of information presented in the Company's MD&A, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars – refer to Note 1 of the Consolidated Financial Statements.

Principal Holders of Voting Shares

As at December 31, 2005, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (GWL) held 55.9% and 3.5%, respectively, of the outstanding common shares of IGM Financial.

FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about IGM Financial, 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, changes in tax laws, 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. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

IGM Financial Inc.

Summary of Consolidated Operating Results

Net income for the year ended December 31, 2005 was \$682.4 million, compared to adjusted net income of \$615.6 million in 2004, an increase of 10.9%. Diluted earnings per share were \$2.56, an increase of 10.8% compared to adjusted earnings per share of \$2.31 in 2004. Adjusted net income and earnings per share for 2004 excludes a non-recurring expense. Net income in 2004 without adjustment totalled \$596.4 million and diluted earnings per share on this basis were \$2.24.

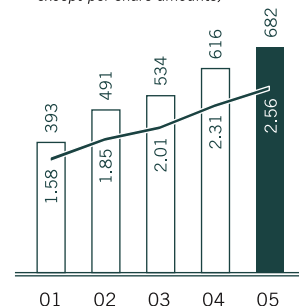
Shareholders' equity was \$3.45 billion as at December 31, 2005, up from \$3.15 billion at December 31, 2004. Return on average common equity was 20.0% for the year ended December 31, 2005 compared with adjusted return on average common equity of 19.8% in 2004. The quarterly dividend per common share was increased to 34.5 cents in 2005 from 30.0 cents at the end of 2004.

NON-GAAP FINANCIAL MEASURES

Adjusted net income, diluted earnings per share (EPS) and return on common equity (ROE) for the year ended December 31, 2004 excluded a charge to earnings

Net Income and Diluted Earnings per Share

For the financial year (\$ millions, except per share amounts)



Legend:
 Light bar: Net Income
 Dark bar: Diluted EPS

2001 excludes goodwill amortization and Mackenzie restructuring costs.

2003 excludes dilution gain, restructuring reversal related to Mackenzie and non-cash income tax charge.

2004 excludes unitholder compensation.

TABLE 1: RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(\$ millions)	2005		2004		2003	
	NET INCOME	EPS	NET INCOME	EPS	NET INCOME	EPS
Adjusted net income –						
Non-GAAP measure	\$ 682.4	\$ 2.56	\$ 615.6	\$ 2.31	\$ 533.5	\$ 2.01
Unitholder compensation, net of tax	–	–	(19.2)	(0.07)	–	–
Dilution gain	–	–	–	–	14.8	0.05
Restructuring reversal, net of tax	–	–	–	–	15.6	0.06
Non-cash income tax charge	–	–	–	–	(24.8)	(0.09)
Net income – GAAP	\$ 682.4	\$ 2.56	\$ 596.4	\$ 2.24	\$ 539.1	\$ 2.03
EBITDA – Non-GAAP measure	\$ 1,365.5		\$ 1,253.1		\$ 1,138.6	
Commission amortization	(260.2)		(226.7)		(193.9)	
Amortization of capital and intangible assets	(22.4)		(22.9)		(27.4)	
Interest expense on long-term debt and dividends on preferred shares	(107.5)		(112.2)		(118.6)	
Unitholder compensation	–		(28.8)		–	
Dilution gain	–		–		14.8	
Restructuring reversal	–		–		24.8	
Income before income taxes and non-controlling interest	975.4		862.5		838.3	
Income taxes	(291.5)		(264.9)		(299.2)	
Non-controlling interest	(1.5)		(1.2)		–	
Net income – GAAP	\$ 682.4		\$ 596.4		\$ 539.1	

recorded in the fourth quarter of \$28.8 million (\$19.2 million after tax) which included both compensation payments to certain unitholders of Investors Group and related costs resulting from settlement agreements with regulatory agencies (unitholder compensation). Adjusted net income, EPS and ROE for the year ended December 31, 2003 exclude a dilution gain resulting from the reduction in the Company's percentage ownership of GWL related to their acquisition of The Canada Life Assurance Company (Canada Life), a reversal of restructuring costs related to the acquisition of Mackenzie Financial Corporation (Mackenzie) and a non-cash income tax charge related to increases in Ontario tax rates. While these non-GAAP financial measures are used to provide management and investors with additional measures to assess earnings performance, they do not have standard meanings and are not directly comparable to similar measures used by other companies.

Earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA) are also non-GAAP financial measures.

EBIT and EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA is discussed further in the Consolidated Liquidity section later in this 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.

The reconciliation of non-GAAP results to reported results in accordance with GAAP for net income, EPS and EBITDA is provided in Table 1. The reconciliation of non-GAAP results to reported results in accordance with GAAP related to EBIT is provided in Table 2.

REPORTABLE SEGMENTS

IGM Financial's reportable segments, which reflect the current organizational structure, are:

- Investors Group
- Mackenzie
- Corporate and Other

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

(\$ millions)	INVESTORS GROUP		MACKENZIE		CORPORATE & OTHER ⁽¹⁾		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004
Fee income	\$ 1,201.5	\$ 1,080.8	\$ 863.3	\$ 821.6	\$ 99.7	\$ 53.4	\$ 2,164.5	\$ 1,955.8
Net investment income and other	126.4	123.3	19.0	15.8	37.7	24.2	183.1	163.3
	1,327.9	1,204.1	882.3	837.4	137.4	77.6	2,347.6	2,119.1
Operating expenses								
Commissions	326.5	264.0	339.9	320.2	60.1	32.5	726.5	616.7
Non-commission	265.5	273.8	258.9	255.6	30.9	14.9	555.3	544.3
	592.0	537.8	598.8	575.8	91.0	47.4	1,281.8	1,161.0
Earnings before interest and taxes	\$ 735.9	\$ 666.3	\$ 283.5	\$ 261.6	\$ 46.4	\$ 30.2	1,065.8	958.1
Interest expense							90.4	95.6
Income before income taxes and non-controlling interest							975.4	862.5
Income taxes							291.5	264.9
Income before non-controlling interest							683.9	597.6
Non-controlling interest							1.5	1.2
Net income								
In accordance with GAAP							\$ 682.4	\$ 596.4
Adjusted net income ⁽²⁾							\$ 682.4	\$ 615.6

(1) 2004 includes Investment Planning Counsel's results from the date of acquisition.

(2) Refer to Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

Management measures and evaluates the performance of these segments based on EBIT as shown in Table 2.

Discussion of Investors Group and Mackenzie Segment Operating Results is contained in their respective sections of this MD&A.

On May 10, 2004, the Company acquired a 74.7% interest in Investment Planning Counsel Inc. (Investment Planning Counsel). The Company's operating results include its earnings from the date of acquisition which are reported in the Corporate and Other segment in Table 2. Additional information related to the acquisition is included in Note 21 to the Consolidated Financial Statements.

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 \$46.4 million for the year ended December 31, 2005 compared to \$30.2 million in 2004. The increase of \$16.2 million resulted primarily from:

- The inclusion of Investment Planning Counsel's earnings before interest and taxes for the entire twelve months in 2005 compared with the period from May 10 to December 31, 2004 which accounted for an increase of \$6.2 million.
- The elimination of certain provisions, established as a result of previous acquisitions, which were no longer required and which accounted for an increase in income of \$10.4 million.

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

- *Interest expense* – Represents both the interest cost on the remaining debt issued pursuant to the Mackenzie acquisition and dividends paid on the outstanding preferred shares, which have been reclassified from equity to liabilities (refer to Note 1 of the Consolidated Financial Statements). Interest expense on long-term debt issued in relation to the Mackenzie acquisition totalled \$69.7 million in 2005 compared with \$74.9 million in 2004. The decrease in expense was due to the repayment of the remaining \$175 million balance of the Floating Bankers' Acceptance related to the Mackenzie acquisition in the fourth quarter of 2004. Dividends paid on preferred shares were \$20.7 million in both 2005 and 2004.
- *Income taxes* – The effective rate of tax in 2005 was 29.9% compared with 30.7% in 2004 as shown in Table 3.

The decrease in the effective tax rate relates primarily to the recognition of favourable tax experience which is reflected in Other items. Tax planning may allow the Company to record lower income taxes in the current period and, as well, income taxes recorded in prior periods may be adjusted in the current period to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in Other items, which also includes, but is not limited to, the effect of lower effective tax rates on income not subject to tax in Canada. Management monitors the status of its income tax filings, and regularly assesses the overall adequacy of its provision for income taxes.

TABLE 3: EFFECTIVE INCOME TAX RATE

	2005	2004
Income taxes at Canadian federal and provincial statutory rates	35.93%	36.17%
Effect of:		
Dividend income	(0.30)	(0.22)
Net capital gains and losses	(0.75)	(0.74)
Share of earnings of affiliate	(2.72)	(3.06)
Preferred dividends paid	0.79	0.90
Other items	(3.06)	(2.33)
Effective income tax rate	29.89%	30.72%

SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 4.

- *Net Income and Earnings per Share* – Table 1 of the MD&A shows the reconciliation of non-GAAP financial results to GAAP results for the three years under review. Adjusted net income in 2004 was \$615.6 million compared with adjusted net income in 2003 which was \$533.5 million. Except as noted in the adjusted net income reconciliation in Table 1, variations in net income and total revenues result

primarily from changes in total mutual fund assets under management. Average daily mutual fund assets under management by year are shown on Table 4. The impact on earnings and revenues of changes in mutual fund assets under management are discussed in the Review of Segment Operations sections of the MD&A for both Investors Group and Mackenzie.

- *Dividends per Common Share* – Dividends per common share have increased by approximately 16% in each of the three years under review.

TABLE 4: SELECTED ANNUAL INFORMATION

	2005	2004	2003
Consolidated statements of income (\$ millions)			
Fee income	\$ 2,164.5	\$ 1,955.8	\$ 1,714.4
Net investment income	183.1	163.3	159.8
	2,347.6	2,119.1	1,874.2
Operating expenses	1,372.2	1,256.6	1,050.7
	975.4	862.5	823.5
Dilution gain	–	–	14.8
Income before undernoted	975.4	862.5	838.3
Income taxes	291.5	264.9	299.2
	683.9	597.6	539.1
Non-controlling interest	1.5	1.2	–
Net income			
In accordance with GAAP	\$ 682.4	\$ 596.4	\$ 539.1
Adjusted net income ⁽¹⁾		\$ 615.6	\$ 533.5
Earnings per share (\$)			
In accordance with GAAP – Basic	\$ 2.58	\$ 2.26	\$ 2.04
– Diluted	\$ 2.56	\$ 2.24	\$ 2.03
Adjusted earnings per share ⁽¹⁾			
– Basic	\$ 2.58	\$ 2.33	\$ 2.02
– Diluted	\$ 2.56	\$ 2.31	\$ 2.01
Dividends per share (\$)			
Common	\$ 1.34	\$ 1.15	\$ 0.99
Preferred	\$ 1.44	\$ 1.44	\$ 1.44
Average daily mutual fund assets (\$ millions)			
	\$ 87,723	\$ 78,793	\$ 68,858
Total corporate assets (\$ millions)			
	\$ 6,807	\$ 6,473	\$ 6,292
Total long-term debt (\$ millions)			
	\$ 1,225	\$ 1,227	\$ 1,404
Outstanding common shares (thousands)			
	264,539	264,598	264,090

(1) Refer to the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

SUMMARY OF QUARTERLY RESULTS

Financial information for the eight most recently completed quarters is included in Table 5. Significant variation in quarterly earnings occurred in the fourth quarter of 2004 due to the \$28.8 million charge (\$19.2 million after-tax) recorded by IGM Financial related to unitholder compensation as described earlier in the Summary of Consolidated Operating Results. With the exception of the item noted above, there were no significant variations to quarterly results. Quarterly

results are not subject to significant seasonal fluctuations because earnings are primarily dependent on the level of mutual fund assets under management. Average daily mutual fund assets under management by quarter are shown in the Summary of Quarterly Results on Table 5. Although mutual fund sales are generally higher in the first quarter of each year as a result of the RSP season, the impact of the higher sales on that quarter's earnings is not significant.

TABLE 5: SUMMARY OF QUARTERLY RESULTS

	2005				2004			
	4	3	2	1	4	3	2	1
Consolidated statements of income (\$ millions)								
Fee and net investment income								
Management	427.1	420.5	406.4	390.7	383.2	371.7	371.7	365.1
Administration	78.0	74.5	75.4	79.5	71.6	74.2	75.8	78.0
Distribution	55.9	53.4	49.8	53.3	46.2	44.5	38.9	34.9
Net investment income and other	47.3	38.6	47.6	49.6	47.1	36.7	37.1	42.4
Total fee and net investment income	608.3	587.0	579.2	573.1	548.1	527.1	523.5	520.4
Operating expenses								
Commission expense	189.5	183.5	177.9	175.6	163.8	155.3	153.8	143.8
Non-commission expense	141.2	135.6	135.7	142.8	154.2	126.6	126.7	136.8
Interest expense	22.7	22.8	22.5	22.4	24.1	23.9	23.7	23.9
Total operating expenses	353.4	341.9	336.1	340.8	342.1	305.8	304.2	304.5
Income before undernoted	254.9	245.1	243.1	232.3	206.0	221.3	219.3	215.9
Income taxes	77.5	68.3	74.6	71.1	63.5	66.9	66.5	68.0
	177.4	176.8	168.5	161.2	142.5	154.4	152.8	147.9
Non-controlling interest	0.2	0.2	0.6	0.5	0.4	0.6	0.2	–
Net income								
In accordance with GAAP	177.2	176.6	167.9	160.7	142.1	153.8	152.6	147.9
Reconciliation of non-GAAP financial measures⁽¹⁾ (\$ millions)								
Adjusted net income (non-GAAP)	177.2	176.6	167.9	160.7	161.3	153.8	152.6	147.9
Unitholder compensation (net of tax)	–	–	–	–	(19.2)	–	–	–
Net income (GAAP)	177.2	176.6	167.9	160.7	142.1	153.8	152.6	147.9
Earnings per share (¢)								
In accordance with GAAP								
– Basic	67	67	63	61	54	58	58	56
– Diluted	66	66	63	60	53	58	57	56
Adjusted earnings per share ⁽¹⁾								
– Basic	67	67	63	61	61	58	58	56
– Diluted	66	66	63	60	61	58	57	56
Average daily mutual fund assets (\$ billions)	90.6	89.7	86.1	84.5	80.6	78.4	78.8	77.3

(1) Refer to the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.

Investors Group

Review of the Business

Investors Group's core business provides a broad range of financial and investment planning services to Canadians through its dedicated network of trained and supported Consultants.

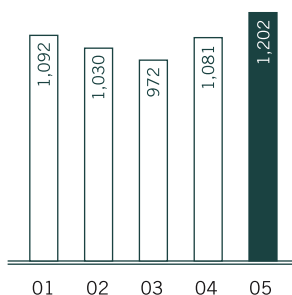
Investors Group earns revenue primarily from:

- Management fees charged to its mutual funds.
- Fees charged to its mutual funds for administrative and trustee services.
- Distribution fees charged to mutual fund account holders.

Fee income is also earned from the distribution of insurance products, banking and securities services. Additional revenue is derived from net investment income and other income, as discussed in the Review of Segment Operating Results.

Revenues depend largely on the value and composition of assets under management. Our comprehensive approach to financial planning, accomplished by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in strong mutual fund sales and a mutual fund redemption rate lower than the industry average. Mutual fund gross sales through our Consultant network increased by 16.2% in 2005 to \$5.5 billion, while net sales were \$778 million, up from \$218 million in 2004. Investors Group's redemption rate on long-term funds declined to 8.7% at December 31, 2005 from 9.1% in 2004 while the redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) increased to 16.4% at December 31, 2005 from 15.3% in 2004.

**Fee Income –
Investors Group**
For the financial year (\$ millions)



SEGMENT STRATEGY

Investors Group strives to ensure that the interests of shareholders, clients, Consultants and employees are as closely aligned as possible. Investors Group's business approach embraces current trends in the Canadian financial services industry and our strategic plan is focused on:

1. Growing our distribution network through the attraction of new industry professionals and the retention of existing Consultants.
2. Emphasizing the delivery of financial planning advice, products and services through our dedicated network of well trained and well supported Consultants.
3. Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring relationships by meeting the changing needs of our broad spectrum of clients.
4. Maximizing returns on business investment by:
 - Focusing resources on initiatives that have direct benefits to clients and Consultants.
 - Controlling expenditures through the management of staffing levels, improved productivity, effective and continual investments in technology, and the management of discretionary expenses while capitalizing on economies of scale through our relationship with Mackenzie and Investment Planning Counsel, along with other members of the Power Financial group of companies.

CORE BUSINESS

Consultants

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants located in 115 Financial Planning Centres across Canada.

As part of our commitment to continued growth, we expanded the size of our field management in 2005 by 15.9%. In addition to expanding the number of individuals in field management roles, we also expanded their management training, their role in training new Consultants and the tools available to monitor the progress of these Consultants.

Concurrent with the growth of our field management and the number of new Consultants, we added seven new region offices in 2005. Two offices in Quebec and two offices in Ontario transitioned from division office to region office status while three additional new region offices were established in Calgary, Edmonton and Toronto.

RECRUITING AND RETENTION

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners. In 2005, our Division Directors and Field Trainers were provided with a new recruiting program together with additional tools to assist them in their recruitment efforts. These efforts, combined with our Consultant and field management compensation, recognition and support programs have proven successful, as evidenced by the growth of our Consultant network.

At the end of 2005, Investors Group had 3,668 Consultants, compared with 3,496 in 2004. The number of Consultants with more than four years experience was 2,100 compared to 2,030 a year earlier. Our Consultant network has grown in each of the last six consecutive quarters.

CONSULTANT DEVELOPMENT

Management continues to focus on Consultant development. Our comprehensive Consultant Training program combines technical education with field experience. Each year, our training curriculum is reviewed and refreshed to offer new Consultants the essential building blocks they require to develop their individual businesses.

As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development skills, compliance, technology, practice management and other related topics. Supplemental training, coaching and mentorship are top priorities for the Consultant network's Regional Directors and Division Directors across Canada.

In 2005, Investors Group continued to enhance its training and development programs for Consultants. This included the completion of our transition from a centralized training model to an area training model which is now delivered primarily through our region offices across Canada. We have also seen positive

results from our Field Development Program, which was introduced in 2004 to provide enhanced coaching and mentorship to Consultants in their early years in the business and to increase their likelihood of success.

In keeping with Investors Group's commitment to maintaining a high standard of ethical business practices and conduct, Consultants also receive ongoing training, information and guidance regarding business standards, and regulatory and compliance matters.

Investors Group also supports industry initiatives to introduce uniform qualification requirements for use of the "financial planner" designation. Enrollment in programs to achieve a Certified Financial Planner (CFP) designation, or the equivalent designation in the province of Quebec (Pl. Fin.), is encouraged and supported.

PRODUCTIVITY

Investors Group implemented a number of significant changes in 2005 designed to enhance the productivity of our field management and Consultants. These included:

- The introduction of a new web-based resource for Regional Directors and Division Directors to assist them in their management, recruitment and compliance efforts.
- The launch of an online system for Division Directors that tracks new Consultant effectiveness to assist with coaching opportunities.
- Symphony Strategic Investment Planning™ improved its Portfolio Tuner which now automatically calculates and recommends transactions across all fund series to implement or rebalance a client's investment portfolio and to re-balance a client's iProfile™ pool.
- Enhancements to the Company's order entry program to enable Consultants to transact on third party mutual fund accounts and to provide trade validation against existence of Know Your Client (KYC) information. This order entry system was developed by Winfund Software Corp. which is owned by a subsidiary of Mackenzie and its software is used by over 95 dealers within the mutual fund industry.
- Automated the delivery of prospectuses directly to clients in all situations where they should have a current prospectus.
- Senior Insurance Specialists were hired in both Vancouver and Montreal with a mandate to assist with larger insurance cases.

Management believes that these initiatives make Investors Group more attractive and competitive to Consultants and potential Consultants, and should lead to greater recruitment, productivity, asset growth and compliance into the future.

Products and Services

Investors Group is regarded as a leader in personal financial planning in Canada. This is achieved by delivering personal financial solutions tailored to each client's individual needs. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's goals, preferences and risk tolerance. They also look beyond investments to offer clients insurance products, banking services and mortgages.

PFP – PERSONAL FINANCIAL PLANNER

Investors Group's Personal Financial Planner (PFP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education and estate planning, as well as risk management. The PFP software continues to enhance the quality and professionalism of written financial plans prepared by Consultants.

SYMPHONY STRATEGIC INVESTMENT PLANNING PROGRAM

Symphony is Investors Group's strategic investment planning approach. Symphony is designed to help Consultants build their business with a sophisticated investment discipline, backed by a process that provides a methodology for measuring a client's risk tolerance. Based on that assessment, Consultants are able to provide risk-adjusted recommendations using Investors Group's broad offering of funds.

Symphony's Portfolio Tuner helps Consultants rebalance clients' investment portfolios over time and automatically calculates and recommends transactions to implement or rebalance these portfolios. In 2005, Portfolio Tuner was enhanced to include transactions across all fund series. Changes were also made to enable Portfolio Tuner to automatically rebalance *iProfile* accounts.

MUTUAL FUNDS

Investors Group is committed to enhancing the performance, scope and diversity of our investment products. With the removal of federal foreign content restrictions within Registered investments during the year, the company terminated its Investors Global Series RSP Funds and the *iProfile* Global Equity RSP Pool. We also renamed and broadened the investment objectives and strategy of Investors Corporate Bond Fund, changed the composition of the *iProfile* Fixed Income Pool, and announced the creation of a new dividend fund concentrating on global investments.

INVESTMENT MANAGEMENT

Investors Group has over \$50.7 billion in mutual fund assets under management in 137 mutual funds covering a broad range of investment mandates.

Through our own international team of investment professionals and relationships with external investment advisors, we provide clients with access to a wide range of investment advisory services. Clients can take advantage of the opportunity to diversify their holdings across fund managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

INVESTORS MASTERSERIES™ FUNDS

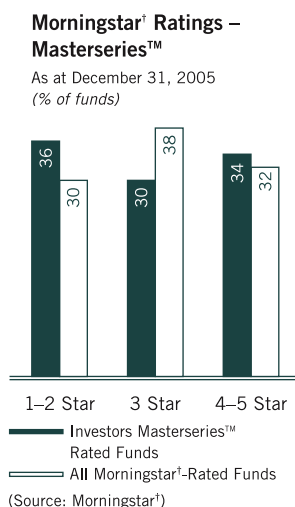
Investors Masterseries funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe and Asia. Our global connections, depth of research and use of information technology, combined with over 55 years of experience, provides us with investment management capabilities that enable us to offer our clients investment management expertise suitable for the widest range of investment objectives.

The Investors Masterseries family of funds includes 42 unit trust funds and 27 Corporate Class funds available in multiple series. The Corporate Class fund structure is discussed later in this report. The 42 unit trust funds include money market, fixed income, balanced, domestic and international equity, global and sector mandates. As at December 31, 2005, total assets related to these funds were \$42.9 billion compared with \$38.1 billion in 2004, an increase of 12.4%. Masterseries unit trust funds represented approximately 85% of the total Investors Group mutual fund assets under management, relatively unchanged from a year ago.

At December 31, 2005, 34% of Masterseries mutual funds had four or five star ratings from the Morningstar[†] fund ranking service and 64% had a rating of three stars or better, compared to 41% and 72% respectively at the end of 2004. Morningstar Ratings[†] are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds. Although our four and five star ratings compared favourably versus the industry, our year-over-year results were impacted by a disproportionate number of funds represented in the Morningstar[†] calculations with only a 3-year performance measure due to the introduction of a large number of new funds over the last 5 years.

In June 2005, Investors Group broadened the investment objective and strategy of Investors Corporate Bond Fund to include government-issued bonds and re-named it Investors Canadian Bond Fund. We also took steps to enhance the yield on Investors Premium Money Market Fund and decreased the minimum investment from \$100,000 to \$25,000, thereby positioning the Fund as a competitive option for investors seeking short-term investments.

With the removal of federal foreign content restrictions within Registered investments during the year, the company also terminated its six Investors Global Series RSP Funds. Subsequent to unitholder approval in September, the units of the Investors U.S. Large Cap Value RSP Fund, Investors Global Science & Technology RSP Fund, Investors Global RSP Fund, Investors European Equity RSP Fund, Investors Japanese Equity RSP Fund and IG AGF U.S. Growth RSP Fund held by unitholders were exchanged for units of the same series of the underlying funds.



Leveraging off of our global investment management expertise, the Company also announced the creation of Investors Global Dividend Fund – one of the first funds of its kind in Canada – which was launched in January 2006.

INVESTORS GROUP CORPORATE CLASS INC.

Investors Group introduced Investors Group Corporate Class Inc., a broad tax advantaged fund structure, in 2002. This group of funds features switching with no immediate tax consequences on a fee-free basis among 46 funds within the group. The funds include 27 of Investors Group's own Masterseries funds advised by I.G. Investment Management as well as funds advised by Mackenzie, AGF Funds Inc., Beutel, Goodman & Company, Ltd., Fidelity Investments Canada Limited, Franklin Templeton Investments Corp., Goldman Sachs Asset Management and Bissett Investment Management.

By the end of 2005, the Corporate Class funds had attracted \$1.1 billion in assets compared with \$659 million in 2004.

MANAGED ASSET AND MULTI-MANAGER INVESTMENT PROGRAMS

Investors Group provides clients with access to a growing selection of asset allocation opportunities directed by some of the world's leading money-management firms. These programs include:

- **Allegro[™] Portfolios:** The Allegro Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification. The seven portfolios include Investors Masterseries funds, Mackenzie partner funds as well as a wide variety of other partner funds. The asset mix of the Allegro portfolios was updated using the same strategic investment planning approach that was developed for the Symphony individual fund recommendations. Since their introduction in 2001, fund assets have grown to \$1.6 billion as of December 31, 2005 compared with \$1.1 billion in the previous year.
- **Alto[™] Portfolios:** The Alto Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification. The ten portfolios include Investors Masterseries funds and Mackenzie partner funds. Assets in the portfolios grew to \$666 million as of December 31, 2005 compared with \$157 million in 2004.

- **Masterseries™ Portfolios:** This fund program has assets in excess of \$7.2 billion as at December 31, 2005, compared with \$6.5 billion in the previous year. The program is comprised of eight funds which invest in 21 underlying Masterseries funds to provide a high level of diversification.
- **iProfile™:** This is a unique portfolio management program introduced in 2001 for clients with assets over \$250,000. iProfile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The program is advised by a select group of 12 global money management firms such as Goldman Sachs Asset Management, Jarislowsky Fraser Limited, Waddell & Reed, J.P. Morgan and I.G. Investment Management, Ltd. With the elimination of foreign content restrictions for Registered investments, the company terminated the iProfile Global Equity RSP Pool in September 2005 with the units exchanged for units in the underlying pool. In December 2005 the asset allocation of the iProfile Fixed Income Pool was changed to include a component investing in Investors Real Property Fund. By the end of 2005, this program had \$514 million in assets, compared with \$437 million in the previous year.

PARTNER FUNDS

Partner funds are an important element of Investors Group's mutual fund product shelf, offering a range of investment disciplines through advisory relationships with other investment management firms. Partner funds are comprised of 26 unit trust funds and 19 Corporate Class funds.

With respect to the partner fund unit trusts, Investors Group continued its relationships with highly regarded investment managers AGF Funds Inc., Beutel, Goodman & Company, Ltd., Bissett Investment Management (an operating division of Franklin Templeton Investments Corp.), Fidelity Investments Canada Limited, Franklin Templeton Investments Corp., Goldman Sachs Asset Management, L.P. and Mackenzie.

Investors Group oversees external investment advisors who are responsible for ensuring that their activities are consistent with Investors Group's investment philosophy and with the stated investment objectives and strategies of their respective funds.

At December 31, 2005, partner unit trust funds totalled \$6.2 billion or approximately 12% of Investors Group's mutual fund assets under management, compared with \$5.3 billion and similar proportion last year. Mackenzie currently provides investment advisory services for six of the partner funds with total assets of \$2.0 billion.

SEGREGATED FUNDS

Investors Group offers eight segregated funds that are distributed solely by Investors Group Consultants. Our segregated funds provide death benefit guarantees and potential creditor protection. These funds also provide protection from long-term market volatility by providing two levels of guarantees – 75% or 100% of the principal invested. These products are underwritten by The Great-West Life Assurance Company (Great-West Life) and the investment components are managed by Investors Group.

INSURANCE

Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Great-West Life Assurance Company
- The Canada Life Assurance Company
- Sun Life Assurance Company of Canada
- The Manufacturers Life Insurance Company (Manulife)

In 2005, we continued to strengthen our relationship with other member companies within the Power Financial group, with Canada Life as our key provider of individual life insurance products and Great-West Life as our key provider of living benefit and group products. The expertise and support available to our Consultants through these companies continues to add value in terms of integrating insurance into a client's overall financial plan. Investors Group continues to have strong associations with our other providers for select life insurance and living benefit products.

During 2005, sales of insurance products as measured by annualized premiums were \$33 million. Total face amount of insurance in force increased during 2005 to \$37 billion. The average number of policies sold per Consultant was 8.6 in 2005 compared with

8.2 in 2004. Distribution of insurance products is enhanced through 39 insurance specialists who assist Consultants with the selection of insurance solutions.

SECURITIES OPERATIONS

Investors Group Securities Inc. is an investment dealer registered in all provinces and territories providing securities services to clients seeking a broader product offering in combination with financial and investment planning. Investors Group Consultants can refer clients to one of the 25 securities specialists available through Investors Group Securities Inc.

During 2005, Investors Group Securities Inc. engaged MRS Securities Services Inc., a subsidiary of Mackenzie and a provider of intermediary services to a number of dealers across Canada, as its new carrying broker. This change is consistent with our strategy of capitalizing on economies of scale and using similar systems and processes where opportunities exist, while at the same time, preserving the integrity and privacy of each company's client base. Concurrent with this change, Les Services Investors Limitée (in Quebec) and Investors Group Financial Services Inc. (everywhere else in Canada) retained MRS Group's mutual fund dealers, M.R.S. Correspondent Corporation and M.R.S. Inc. respectively, as carrying dealers.

At December 31, 2005, assets under administration in Investors Group Securities Inc. were \$1.4 billion, while assets under administration at IG-MRS were \$3.5 billion. The assets gathered by Investors Group Securities Inc. during 2005 were \$914 million, compared to \$1.1 billion in 2004.

Management believes that securities and third-party mutual fund accommodation will continue to be important to assist Consultants to attract clients and maintain relationships with investors who wish to include individual securities and third-party funds as a part of their overall financial plan.

MORTGAGE OPERATIONS

Investors Group Consultants play an integral role in sourcing residential mortgages through client referrals to Investors Group mortgage planning specialists. At December 31, 2005, Investors Group employed 50 mortgage specialists who originate mortgages in key residential markets.

Mortgage originations increased 18.4% over the previous year to 9,259 mortgages. The dollar value of these mortgages increased by 28.4% to \$958 million from \$746 million in 2004. The proportion of residential

mortgages sourced with the assistance of Consultants has increased to 91.5% in 2005, up from 89% in 2004. Through its mortgage banking operations, mortgages are sold to Investors Mortgage Fund, Investors Group's intermediary operations, as well as to third parties and to mortgage conduits. Investors Group is responsible for the ongoing servicing of these mortgages.

In 2005, Investors Group introduced several competitively priced, non-standard term mortgages throughout the year which were well received by Consultants and clients.

Investors Group mortgage operations also provide both origination and servicing to:

- Investors Mortgage Fund, which because of its size requires a steady stream of high-quality mortgages.
- Investors Group Trust Co. Ltd. and Investors Syndicate Limited, both subsidiaries of the Company.
- London Life Insurance Company (London Life), a subsidiary of GWL.

SOLUTIONS BANKING[†]

Investors Group's Solutions Banking[†] initiative continues to gain popularity with Consultants and clients. As at December 31, 2005, 90% of Investors Group Consultants have incorporated Solutions Banking[†] into their financial planning practices with one or more products sold compared to 75% in the previous year.

The offering consists of a wide range of products and services provided by National Bank of Canada under a long-term distribution agreement, and includes: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. Clients have access to nearly 2,000 banking machines, as well as a private labeled client web site and private labeled client service centre.

The Solutions Banking[†] offering supports Investors Group's approach to delivering total financial solutions for our clients via a broad financial planning platform.

ADDITIONAL PRODUCTS AND SERVICES

Investors Group also provides its clients with guaranteed investment certificates offered by Investors Group Trust Co. Ltd., as well as a number of other financial institutions.

Review of Segment Operating Results

Investors Group's earnings from operations before interest and taxes for the year ended December 31, 2005 compared with 2004 are presented in Table 6.

TABLE 6: OPERATING RESULTS – INVESTORS GROUP

<i>(\$ millions)</i>	2005	2004	CHANGE
Fee and net investment income			
Management	\$ 921.0	\$ 830.3	10.9%
Administration	166.7	156.3	6.7
Distribution	113.8	94.2	20.8
Net investment income and other	126.4	123.3	2.5
	1,327.9	1,204.1	10.3
Operating expenses			
Commissions	148.0	108.8	36.0
Asset retention bonus and premium	178.5	155.2	15.0
Non-commission	265.5	273.8	(3.0)
	592.0	537.8	10.1
Earnings before interest and taxes	\$ 735.9	\$ 666.3	10.4%

FEE INCOME

Fee income is generated from the management, administration and distribution of 137 Investors Masterseries™, partner and managed asset investment funds. The distribution of insurance and banking products and the provision of securities services provide additional fee income.

Fee income represented 90.5% of gross revenue in 2005, compared with 89.8% in 2004. Total fee income increased by \$120.7 million to \$1.2 billion, an increase of 11.2% from 2004. Fee income is driven primarily by the level and composition of assets under management. Assets under management are influenced by three factors: sales, redemptions and investment returns. The changes in assets under management in 2005 compared with 2004 are reflected in Table 7.

For the year ended December 31, 2005, sales of Investors Group mutual funds through its Consultant network were \$5.5 billion, an increase of 16.2% from 2004. Mutual fund redemptions totalled \$4.7 billion for the same period, an increase of 4.6% from \$4.5 billion in 2004. Investors Group's twelve month trailing redemption rate for long-term funds decreased to 8.7% at December 31, 2005 from 9.1% at December 31, 2004, and remains below the corresponding redemption rate of 16.4% for all other members of IFIC. Net sales of Investors Group mutual funds were \$778 million in 2005 compared with net sales of \$218 million in 2004.

Sales of long-term funds were \$4.6 billion in 2005, compared with \$3.7 billion in 2004, an increase of 22.9%. Net sales of long-term funds, as reported to IFIC, were \$529 million compared to net redemptions of \$81 million in 2004. Certain sales of long-term funds in the first quarter of 2004, sourced through Investors Group's Solutions Banking[†] loan programs, were deposited and held in Investors Canadian 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 year ended December 31, 2004 would have been \$3.8 billion and \$52 million respectively.

Investors Group's mutual fund assets under management were \$50.7 billion at December 31, 2005, an increase of \$6.2 billion or 13.9% from December 31, 2004. The increase in assets from December 31, 2004 reflects net market appreciation of \$5.4 billion and net sales of mutual funds totalling \$778 million as discussed above. The increase in assets in the industry for the twelve months ended December 31, 2005 was 14.6%.

TABLE 7: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

<i>(\$ millions)</i>	2005	2004	CHANGE
Sales	\$ 5,487.6	\$ 4,722.3	16.2%
Redemptions	4,709.8	4,504.4	4.6
Net sales	777.8	217.9	257.0
Market and income	5,413.4	3,387.7	59.8
Net change in assets	6,191.2	3,605.6	71.7
Beginning assets	44,509.8	40,904.2	8.8
Ending assets	\$ 50,701.0	\$ 44,509.8	13.9%
Consists of:			
Investors Masterseries funds	\$ 43,657.6	\$ 38,570.2	13.2%
IG Mackenzie partner funds	2,144.2	1,696.8	26.4
Partner funds	4,385.1	3,805.4	15.2
iProfile funds	514.1	437.4	17.5
	\$ 50,701.0	\$ 44,509.8	13.9%
Average daily assets	\$ 47,137.9	\$ 42,493.4	10.9%

Investors Group earns management fees for investment management services provided to its mutual funds. In 2005, management fee income increased by \$90.7 million to \$921.0 million reflecting the increase of 10.9% in average daily mutual fund assets in 2005 compared with 2004. Management fee income represents 195 basis points of average mutual funds assets in 2005, unchanged from 2004.

Investors Group earns administration fees for providing:

- Administrative services to its mutual funds through certain of its subsidiaries.
- Trusteeship services to its mutual funds through Investors Group Trust Co. Ltd.

Administration fees totalled \$166.7 million in 2005, up 6.7% from \$156.3 million in 2004. Increases in trustee fees and other service fees increased by \$9.2 million in 2005 and resulted from growth in average mutual fund assets in 2005 compared to 2004. Fees charged to the mutual funds for administrative services increased \$0.6 million due to increases in related non-commission expenses.

Distribution fees are earned from:

- Redemption fees on mutual funds sold with a back-end load feature. 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. 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.
- Securities services through Investors Group Securities Inc.
- Banking services through Solutions Banking[†], an arrangement with the National Bank of Canada.

Distribution fee income of \$113.8 million in 2005 increased by 20.8% from \$94.2 million in 2004. Distribution fee revenue from securities, insurance and banking operations totalled \$69.1 million, an increase of \$15.5 million over 2004. The increase is due primarily to higher fee income related to insurance operations arising from both the increase in premium sales and the restructuring of the Company's distribution agreements. Redemption fee income of \$31.3 million in 2005 increased by \$2.2 million due to both higher redemptions subject to deferred sales charges in 2005 compared to 2004 and the impact of the industry standard deferred sales charge schedule which was introduced in 2003.

NET INVESTMENT INCOME AND OTHER

Net investment income and other includes interest and dividends earned on cash and cash equivalents, securities and mortgage loans. It also includes gains and losses on the sale of securities, Investors Group's share of earnings of Great-West Lifeco Inc. (GWL), as well as income related to mortgage banking activities. Investors Group measures net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, certificates and debt incurred to finance its investment in GWL.

Net investment income and other totalled \$126.4 million in 2005, an increase of \$3.1 million or 2.5% from \$123.3 million in 2004 due to increases in gains on the sale of securities and increases in Investors Group's share of GWL's earnings offset in part by a decrease in revenues related to mortgage banking activities. Increases in other income included the recovery of prior years' commodity taxes paid and a reduction in provisions established for the exit of certain 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 was \$148.0 million in 2005, an increase of \$39.2 million from \$108.8 million in 2004. The increase in commission expense was due to:

- Increase in amortization of commissions totalling \$25.1 million in 2005 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.
- Increase in amortization of commissions of \$2.2 million related to higher commission payments in 2005 compared with 2004. The increase in commission payments results from higher mutual fund sales.
- Increases of \$11.9 million in other compensation related to mutual fund operations, insurance, mortgage and banking products. Other compensation expense in 2004 included a reduction of \$6.5 million due to a change in estimate related to mutual fund operations.

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

- ARB which is paid monthly and is based on the value of assets under management. ARB expense increased by \$17.2 million in 2005 primarily as a result of the increase in assets under management.
- Asset retention premium (ARP) which is a deferred component of compensation designed to promote Consultant retention. The ARP, which is related to assets under management at each year-end, increased by \$6.1 million to \$22.4 million.

Non-commission expenses include: costs incurred by Investors Group in the support of its Consultant network; the administration, marketing and management of its mutual funds and other products; as well as all other expenses in the operation of its business.

Non-commission expense totalled \$265.5 million in 2005 compared with \$273.8 million in 2004, a decrease of \$8.3 million or 3.0%. Decreases in expenses were primarily due to:

- Unitholder compensation of \$28.8 million recorded in the fourth quarter of 2004 as discussed earlier.
- A reduction in expenses of \$3.5 million arising from a change in estimate related to client claims settlements recorded in the fourth quarter of 2005.
- A reduction in expenses of \$1.7 million arising from a change in estimate related to credit losses on Consultant financing programs recorded in the first quarter of 2005.

Decreases in expenses were offset by:

- Increases in Consultant Network support costs as a result of increased activity levels.
- Increases in expenses related to the administration of Investors Group's mutual funds.
- Increases in amortization of capital expenditures related to the single shareholder system. Investors Group and Mackenzie merged their shareholder systems in November 2003, while preserving the integrity and privacy of their respective client bases.

Non-commission expense of \$273.8 million in 2004 also included a reduction of \$3.7 million recorded in the third quarter of 2004 which represented a portion of the general allowance for credit losses. This reduction of a portion of the general allowance resulted from the periodic review of the credit quality of Investors Group's mortgage portfolio and the adequacy of the related general allowance.

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

Review of the Business

Founded in 1967, Mackenzie is recognized as one of Canada's premier investment managers. Mackenzie has established and continues to build strong relationships with independent financial advisors, providing a diversified distribution network for its services and products. Under the Mackenzie master brand, the company deploys a sub-branding strategy that includes: Cundill, Ivy, Maxxum, Sentinel*, Select Managers* and Universal. Mackenzie also provides asset allocation and managed product investment solutions through the Keystone and Symmetry sub-brands.

ASSET MANAGEMENT OPERATIONS

Mackenzie's mutual fund assets under management were \$41.6 billion at December 31, 2005, an increase of \$4.3 billion or 11.5% from \$37.3 billion as at December 31, 2004. Mackenzie's total assets under management at December 31, 2005 were \$49.9 billion, an increase of \$7.6 billion or 17.7% from \$42.3 billion at December 31, 2004. The changes in assets under management are summarized in Table 8.

In 2005, gross sales of Mackenzie's mutual funds were \$8.1 billion, an increase of 19.0% from \$6.8 billion in 2004. Redemptions of mutual funds in the current year were \$6.9 billion as compared to redemptions of

\$6.0 billion in 2004. Net sales of mutual funds during 2005 were \$1.17 billion, as compared to net sales of \$795 million last year. Net sales of long-term funds were \$1.03 billion in 2005, as compared to net sales of long-term funds of \$819 million in 2004.

As at December 31, 2005, Mackenzie's twelve month trailing redemption rate for long-term funds was 14.8% as compared to 13.8% last year. One of the factors contributing to this is the increase in the proportion of Mackenzie's mutual fund units no longer subject to a redemption fee. The twelve month trailing redemption rate for long-term funds for all other members of IFIC increased to 15.7% at December 31, 2005 from 14.8% last year.

During 2005, investment returns generated for Mackenzie unitholders resulted in mutual fund assets increasing by \$3.1 billion as compared to an increase of \$2.7 billion in 2004.

Mackenzie also provides investment management services to institutional accounts. The assets in these accounts as at December 31, 2005 were \$8.1 billion, a 64.1% increase from \$4.9 billion last year. As well, Mackenzie's structured products totalled \$203 million as at December 31, 2005, an increase of \$74 million as compared to December 31, 2004.

TABLE 8: CHANGES IN ASSETS UNDER MANAGEMENT – MACKENZIE

<i>(\$ millions)</i>	2005	2004	CHANGE
Mutual Funds			
Sales	\$ 8,074.8	\$ 6,786.7	19.0%
Redemptions	6,900.2	5,991.4	15.2
Net sales	1,174.6	795.3	47.7
Market and income	3,119.2	2,733.0	14.1
Net change in assets	4,293.8	3,528.3	21.7
Beginning assets	37,298.2	33,769.9	10.4
Ending assets	41,592.0	37,298.2	11.5
Institutional Accounts			
Related parties and Investors Group	4,066.9	3,392.3	19.9
Other	3,991.5	1,518.5	162.9
	8,058.4	4,910.8	64.1
Structured Products	202.5	129.0	57.0
Total	\$ 49,852.9	\$ 42,338.0	17.7%
Average daily mutual fund assets	\$ 38,940.6	\$ 35,427.8	9.9%

Mutual Funds

At December 31, 2005, 55.2% of Mackenzie's mutual fund assets measured by Morningstar[†] fund ranking service had four or five star ratings and 90.7% had a rating of three stars or better. This compares to 69% and 87% respectively at December 31, 2004, and to the Morningstar[†] universe of 45.6% for four and five star and 86.6% for three stars or better as at December 31, 2005.

Mackenzie's Cundill Funds continued their strong performance in 2005. Three of Cundill's five rated funds earned the five-star rating offered by Morningstar[†]. Mackenzie Cundill Value Fund was among the top performing global equity mutual funds available to Canadian investors and was the top selling global equity fund in Canada during 2005. This fund ended the year with \$4.3 billion in assets. Mackenzie Cundill Recovery Fund received recognition as best Global Equity Fund at the 2005 Canadian Investment Awards, one of two specialty awards garnered by Mackenzie.

Mackenzie Universal Canadian Resource Fund also received an award at the Canadian Investment Awards, as best Natural Resources Equity Fund. Through a sub-advisory relationship, U.S. retail investors are drawing upon Mackenzie's knowledge of global natural resources investing via U.S. based Waddell & Reed's Ivy Global Natural Resources Fund. The fund experienced strong sales with assets growing to \$2.9 billion in 2005 from \$1.1 billion last year.

While the Ivy funds experienced net redemptions in 2005 they attracted more than \$1.0 billion in new sales. The Ivy team builds diversified portfolios of businesses that exhibit the characteristics of conservative growth

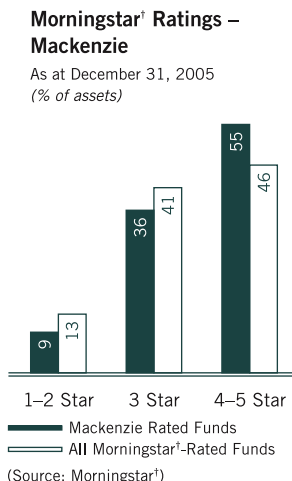
purchased at reasonable prices. Currency is not hedged, so that the Ivy funds offer Canadian investors diversification not only in terms of foreign businesses, but also in terms of foreign currencies. Canadian equity market advances during 2005 were largely influenced by increases in the energy and natural resource sectors, sectors in which the Ivy funds did not have significant holdings.

In addition to funds in the Cundill fund family, a broad cross section of funds from Mackenzie's other fund families, including Mackenzie Select Managers Japan Capital Class, Mackenzie Sentinel Corporate Bond Fund, Mackenzie Universal U.S. Growth Leaders Fund and Mackenzie Maxxum Canadian Equity Growth Fund, were among the performance leaders in their respective categories.

PRODUCT DEVELOPMENT, SERVICE AND POSITIONING

Investor demand for income was strong during 2005. With interest rates remaining low, many investors looked to mutual funds and other investment products to enhance income yields. In addition to the existing suite of income-producing investments, two new products specifically designed to provide steady cash flow and address the retirement needs of an aging population were introduced in 2005. In July, the Mackenzie Maxxum Pension Fund was renamed Mackenzie Maxxum Monthly Income Fund and its mandate broadened to include higher yielding investments such as corporate bonds and income trusts in addition to equities and government bonds. Mackenzie Maxxum Monthly Income Fund offers capital appreciation potential while paying monthly distributions of approximately 5% a year.

Income trusts, with their ability to pay distributions often with yields higher than government bonds or common and preferred share dividends, continued to attract the attention of investors. To combine the higher income generating characteristics of income trusts with the benefits of professional active management, Mackenzie Sentinel Income Trust Fund was launched in December 2005. The fund invests in income trusts and pays variable monthly distributions.



Although Canadian investors as a group favoured Canadian equity funds over foreign equity funds during 2005, Mackenzie had strong asset growth in the foreign category. The Mackenzie Cundill Value Fund, a foreign equity fund, recorded \$2.2 billion in asset growth during the year. Mackenzie increased its choice in the global equity category in October by broadening the mandate of an existing fund, Mackenzie Universal Financial Services Capital Class, and renaming it Mackenzie Maxxum Global Explorer Capital Class. With the addition of this fund to the Maxxum line-up, each Mackenzie fund family now offers investors and advisors a global choice.

Symmetry, Mackenzie's multi-manager pooled wrap program, had strong growth during the year, with assets increasing 72% to total \$498 million as of December 31, 2005. Symmetry combines strategic asset allocation with input from a client's financial advisor to provide a level of customization not available with most competitive asset allocation programs.

The Mackenzie Structured Products Group (MSP) continues to create innovative, tax efficient products such as MSP* ArMADA Protected Deposit Notes[†]. Issued in November, in partnership with Bank of Montreal, these Notes provide principal protection at maturity as well as income and growth potential through exposure to Mackenzie Maxxum Dividend Fund. Two versions were offered to provide investors with unique tax planning opportunities: MSP* ArMADA Protected Deposit Notes[†], Maxxum* Yield Class[†], Series 1 (Regular Notes) and MSP* ArMADA Protected Deposit Notes[†], Maxxum* Yield R.O.C. Class[†], Series 1 (ROC Notes). Any semi-annual distributions on the Regular Notes will be treated as interest income, while distributions on the ROC Notes should be characterized as return of capital. Total sales of the two Deposit Notes exceeded \$30 million.

TABLE 9: MUTUAL FUND ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

<i>(\$ millions)</i>	2005	2004	CHANGE
Equity			
Domestic	\$ 16,463.7	\$ 14,876.5	10.7%
Foreign	11,779.8	10,539.8	11.8
	28,243.5	25,416.3	11.1
Balanced			
Domestic	8,847.0	7,796.1	13.5
Foreign	731.7	533.1	37.3
	9,578.7	8,329.2	15.0
Fixed Income			
Domestic	2,193.2	1,883.3	16.5
Foreign	112.3	164.8	(31.9)
	2,305.5	2,048.1	12.6
Money Market			
Domestic	1,408.2	1,453.2	(3.1)
Foreign	56.1	51.4	9.1
	1,464.3	1,504.6	(2.7)
Total	\$ 41,592.0	\$ 37,298.2	11.5%

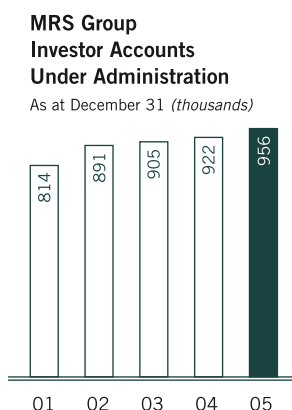
Mackenzie continues to streamline its product line to provide focused investment mandates, avoid duplication, create efficiencies, and enhance the value provided to investors. During 2005, six funds, inclusive of clone funds, were merged into other funds with similar mandates to create better economies of scale for Mackenzie investors. The clone funds, which were foreign funds that were 100% eligible for registered plans, were no longer necessary upon the removal of federal foreign content restrictions.

During the year, Mackenzie also expanded its institutional and partner relationships. By adding three Mackenzie mandates to one firm's segregated fund program, this resulted in an initial one-time flow of \$500 million and also in additional net sales of over \$60 million during the year. Mackenzie now plays a growing investment role in many fund-of-fund programs throughout its distribution channels. Today the Mackenzie name is prominent as part of the offering at major chartered banks, non-related insurance companies and in the offerings of Investors Group, Investment Planning Counsel and other members of the Power Financial Group of Companies.

In March 2005, Mackenzie introduced a low load deferred sales charge purchase option on all its fund offerings. Mackenzie's low load option, which has a three year redemption schedule, provides advisors and investors greater flexibility in their financial planning. Gross sales of funds under this purchase option were \$270 million in 2005.

DEALER, TRUST AND ADMINISTRATION SERVICES

Mackenzie continues to provide products and services to dealers, financial advisors and their respective clients through its subsidiaries. M.R.S. Trust Company, a federally regulated trust company, provides loan and deposit products to financial advisors for their clients. M.R.S. Inc. is the largest mutual fund carrying dealer in Canada and is a member of the Mutual Fund Dealers Association (MFDA) of Canada. M.R.S. Securities Services Inc. is a carrier for investment dealers and a discount broker for referred investors and an Investment Dealers Association member firm. M.R.S. Correspondent Corporation is an Autorité des marchés financiers regulated dealer operating in Quebec. Winfund Software Corp. is one of the largest providers of dealer and advisor software for distributors of mutual funds in Canada.



Review of Segment Operating Results

Mackenzie's earnings from operations before interest and taxes for the year ended December 31, 2005 compared with 2004 are presented in Table 10.

TABLE 10: OPERATING RESULTS – MACKENZIE

<i>(\$ millions)</i>	2005	2004	CHANGE
Fee and net investment income			
Management	\$ 691.3	\$ 645.5	7.1%
Administration	138.0	140.5	(1.8)
Distribution	34.0	35.6	(4.5)
Net investment income and other	19.0	15.8	20.3
	882.3	837.4	5.4
Operating expenses			
Commissions	154.3	150.3	2.7
Trailer fees	185.6	169.9	9.2
Non-commission	258.9	255.6	1.3
	598.8	575.8	4.0
Earnings before interest and taxes	\$ 283.5	\$ 261.6	8.4%

FEE AND NET INVESTMENT INCOME

The majority of Mackenzie's revenues are earned from the management services it provides as fund manager to the Mackenzie mutual funds. In addition to Mackenzie's retail priced mutual funds, it also offers various series of these funds with lower management fees that are designed for fee-based programs, large accounts and third party investment programs offered by banks, insurance companies and other investment dealers. In return for lower management fees, depending on the specific series of the mutual fund, Mackenzie is not required to pay trailer fees or selling commissions on these funds.

Management fees were \$691.3 million for the year ended December 31, 2005, an increase of \$45.8 million or 7.1% from \$645.5 million in 2004. The increase in management fees was attributed to a 9.9% increase in Mackenzie's average mutual fund assets under management from \$35.4 billion in 2004 to \$38.9 billion in the current year and the growth in its institutional accounts. The overall increase in management fees was less than the growth in assets under management because of the shift in asset mix from retail priced funds to non-retail priced funds, which results in a lower effective management fee rate.

Administration fees were \$138.0 million for the year ended December 31, 2005, a decrease of \$2.5 million from \$140.5 million in 2004. Administration fees include the following main components:

- Operating expenses recovered from Mackenzie mutual funds and structured products.
- Fees earned from administering labour sponsored funds.
- Asset allocation fees.
- RSP clone fund counterparty revenue.
- Trustee and other administration fees generated from the MRS Group account administration business.

On June 29, 2005, tax legislation was enacted which eliminated the foreign property rule applicable to registered plans. As a result of this change in tax legislation, RSP clone funds were no longer necessary to achieve an appropriate level of foreign content in registered plans. Accordingly, Mackenzie's and Investor Group's RSP clone funds were terminated on July 8, 2005 and September 23, 2005 respectively and investors in these funds received the equivalent value of their investments in the corresponding underlying mutual funds. Prior to this change in tax legislation being enacted, M.R.S. Trust Company earned a fee for acting as the counterparty to the forward contracts that certain Mackenzie and Investors Group RSP clone funds purchased in

order to create their registered plan eligibility. Accordingly, M.R.S. Trust will no longer have clone fund counterparty revenue as a source of administration fees.

During the second quarter, the VenGrowth labour sponsored funds terminated their administration agreements with Mackenzie. Mackenzie administered the VenGrowth Funds until November 18, 2005, at which time the completion of the transition to the successor administrator was complete.

Mackenzie earns distribution fee income upon redemption of mutual fund units sold on a deferred sales charge basis. Fees charged range from 5.5% in the first year and decrease to zero after seven years. Distribution fee income in the year ended December 31, 2005 was \$34.0 million, a decrease of \$1.6 million from \$35.6 million last year. This decrease was due to a period over period decline in the absolute level of redemptions of units that are subject to a redemption fee.

The most significant component of net investment income and other is the net interest margin from M.R.S. Trust Company's lending and deposit operations. Net investment income in 2005 was \$19.0 million, an increase of \$3.2 million as compared to \$15.8 million in 2004. This increase is due to changes in the composition of M.R.S. Trust's lending and deposit portfolios and the widening of the net interest margin.

OPERATING EXPENSES

Mackenzie's operating expenses were \$598.8 million for the year ended December 31, 2005, an increase of \$23.0 million or 4.0% from \$575.8 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge basis. Commission expense, which represents the amortization of deferred selling commissions, was \$154.3 million in 2005 as compared to \$150.3 million in the previous year. Mackenzie amortizes deferred selling commissions over a maximum period of seven years from the date of original purchase of the applicable units.

Trailer fees are paid to dealers to compensate them for providing ongoing support to investors in Mackenzie's mutual funds. Trailer fees are calculated as a percentage of assets under management and vary depending on the fund type and whether the fund was

purchased on a front-end basis or on a deferred sales charge basis. In addition, trailer fees are not paid on certain non-retail series of mutual funds and institutional assets.

Trailer fees paid to dealers were \$185.6 million in the current year, an increase of \$15.7 million or 9.2% from \$169.9 million in the previous year. The increase in trailer fees is due to the year over year growth in average mutual fund assets under management, offset partially by the decrease in the average trailer fee rate. Trailer fees as a percentage of average mutual fund assets under management decreased to 0.476% in the current year as compared to 0.479% last year. The decline in the average trailer fee rate is attributed to an increase in the proportion of Mackenzie's mutual fund assets that are in non-retail series of Mackenzie mutual funds, for which Mackenzie does not pay trailer fees thereon.

Non-commission expenses increased \$3.3 million or 1.3% to \$258.9 million in the current year from \$255.6 million last year. 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, were relatively unchanged on a year-over-year basis. The remaining variance in non-commission expenses relates to costs incurred by Mackenzie in the marketing and management of its mutual funds and in the MRS Group's account administration and trust company businesses. Mackenzie's overall cost structure continued to benefit from synergies and efficiencies realized from the transition work with Investors Group, which allowed it to maintain its non-commission expenses at a level that is relatively consistent with 2004 despite a significant increase in assets under management.

IGM Financial Inc.

Consolidated Financial Position

IGM Financial's on-balance sheet assets totalled \$6.81 billion at December 31, 2005, compared to \$6.47 billion at December 31, 2004.

SECURITIES

The Company's holdings of securities were \$178.0 million at December 31, 2005, an increase of \$51.7 million or 40.9% from 2004. The fair value of the Company's portfolio at December 31, 2005 exceeded cost by \$123.7 million compared with \$127.8 million at December 31, 2004.

Market Risk Management

IGM Financial continually strives to ensure that its portfolio holdings are of the highest quality. To manage the market risk associated with the securities portfolio, a Senior Management Investment Committee monitors the Company's portfolio and ensures that all securities activities are in adherence to the Company's Investment Policy. This Committee regularly reviews the portfolio to identify holdings where there has been an other than temporary decline in value. In these circumstances, the carrying amount of the security is written down to recognize the loss.

LOANS

Loans, including mortgages and personal loans, increased by \$16.3 million to \$513.0 million at December 31, 2005 and represent 7.5% of total assets compared to 7.7% in 2004. Mortgages and personal loans related to the Company's intermediary activities increased by \$24.4 million, offset by a decrease of \$18.1 million in residential loans related to the Company's mortgage banking operations. In addition, the general allowance for credit losses decreased by \$10.0 million during 2005 as discussed in the Credit Risk Management section below.

Residential mortgage loans, originated by Investors Group, are funded primarily by the Investors Mortgage Fund and sales to third parties on a fully serviced basis. Mortgage loans sourced through mortgage brokers and personal loans sourced through independent financial advisors relate to M.R.S. Trust's intermediary activities. M.R.S. Trust also sells mortgages and personal loans to third parties on a fully serviced basis through its securitization activities.

Credit Risk Management

At December 31, 2005, impaired loans totalled \$1.0 million compared to \$0.4 million at December 31, 2004, and represented 0.19% of the total loan portfolio, compared with 0.07% at December 31, 2004. The general allowance for credit losses was \$8.2 million at December 31, 2005 compared to \$17.8 million in 2004. The Company monitors its credit risk management policies continuously to evaluate their effectiveness. The Company also periodically reviews the credit quality of the loan portfolios and the adequacy of the related general allowance. The Company reduced its general allowance by \$10.0 million in 2005 due to the elimination of a provision established as a result of a previous acquisition. The reversal was reported in Net Investment Income and Other in the Corporate and Other segment. The Company also reduced the general allowance by \$3.7 million in 2004, which was reflected as a reduction of non-commission expenses in the Investors Group segment. These reductions reflect changes in the size and composition of the portfolios, improving default trends, and continued improvement in underwriting and default management policies and procedures. These policies and practices have resulted in the effective risk management of impaired loans.

During 2005, management continued its policy of maintaining adequate allowances to absorb all known and foreseeable credit-related losses in the mortgage, loan, and real estate portfolios. The allowance for credit losses of \$8.2 million at December 31, 2005 exceeded impaired mortgages and loans by \$7.2 million.

As at December 31, 2005:

- The mortgage portfolios were 97% residential and 68% insured.
- The mortgage portfolios were in excess of 80% owner occupied.
- Mortgages in the portfolios were geographically diverse.
- Strict credit risk management policies continue to be applied.

The characteristics of the mortgage portfolios at December 31, 2005 described above are consistent with prior years.

Consolidated Liquidity and Capital Resources

LIQUIDITY

IGM Financial'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 its outstanding common shares.
- Maintaining liquidity requirements for regulated entities.
- Financing common share repurchases related to the Company's normal course issuer bid.

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. Commissions paid continue to be fully funded through management fee revenue earned on mutual fund assets under management and through additional sales charges levied in connection with the early redemption of mutual funds.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, most of the mortgages are sold to Investors Mortgage Fund or third parties on a fully serviced basis. In order to effectively manage its overall liquidity, the Company is active in both the whole loan sale and securitization markets. During 2005, whole loan sales to third parties totalled \$372.4 million and proceeds from securitizations were \$251.0 million, compared with \$712.1 million and \$207.1 million respectively in 2004.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled \$1,365.5 million for 2005 compared to \$1,253.1 million in 2004, and represents an increase of 9.0%.

In addition to IGM Financial's current balance of cash and cash equivalents in excess of the operating liquidity requirements described above, other potential sources of liquidity include the Company's portfolio of securities and lines of credit. The Company maintains operating lines of credit totalling \$210 million with various Schedule A Canadian chartered banks, of which \$50 million represented committed lines of credit.

IGM Financial's demonstrated ability to raise funds in domestic debt and equity markets is also a source of liquidity.

Cash Flows

Table 11 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which form part of the Consolidated Financial Statements for the year ended December 31, 2005.

Operating activities, before payment of commissions, generated \$941.5 million during the year ended December 31, 2005, as compared to \$769.7 million in 2004. Cash commissions paid were \$337.4 million in 2005 compared with \$305.8 million in 2004 and reflect the increase in mutual fund sales over 2004 levels.

Financing activities during the year ended December 31, 2005 compared to the same period in 2004 related primarily to:

- A net decrease of \$18.2 million in deposits and certificates in 2005 compared to \$39.1 million in 2004 related to decreases in the term deposit levels offset by an increase in demand deposits.
- The payment of regular common share dividends which increased to \$341.3 million in 2005 from \$292.1 million in 2004 as a result of increases in the Company's common share dividends.
- The purchase of 584,700 common shares in 2005 under IGM Financial's normal course issuer bid at a cost of \$23.3 million. In 2004, 756,100 shares were purchased at a cost of \$26.9 million.

Other activity in 2004 related to the repayment of the remaining \$175 million of Floating Bankers' Acceptance in the fourth quarter of 2004 as well as the repayment of long-term debt assumed on the acquisition of Investment Planning Counsel in May 2004.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

For the financial year (\$ millions)

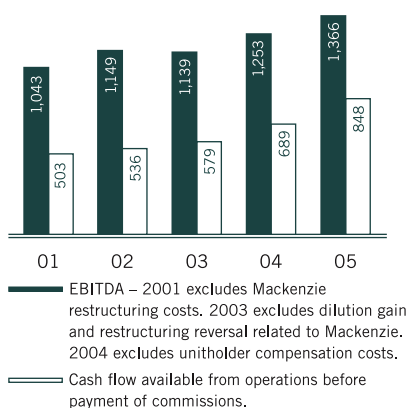


TABLE 11: CASH FLOWS

<i>(\$ millions)</i>	2005	2004	CHANGE
Operating activities			
Before payment of commissions	\$ 941.5	\$ 769.7	22.3%
Commissions paid	(337.4)	(305.8)	(10.3)
Net of commissions paid	604.1	463.9	30.2
Financing activities	(375.4)	(548.8)	31.6
Investing activities	(25.6)	(19.4)	(32.0)
Increase (decrease) in cash and cash equivalents	203.1	(104.3)	N/M
Cash and cash equivalents, beginning of year	865.0	969.3	(10.8)
Cash and cash equivalents, end of year	\$ 1,068.1	\$ 865.0	23.5%

Investing activities during the year ended December 31, 2005 compared to the same period in 2004 related primarily to:

- Securities purchases of \$102.2 million and securities sales with proceeds of \$95.9 million in 2005 compared with \$61.7 million and \$78.5 million respectively in 2004.
- Increases in residential mortgages related to the Company's mortgage banking operations and personal loans related to the Company's intermediary operations of \$258.0 million compared to an increase of \$167.0 million in 2004 offset by securitizations of \$251.0 million in 2005 and \$207.1 million in 2004.

Other activity in 2004 related to the acquisition in May 2004 of Investment Planning Counsel, net of cash and cash equivalents assumed, which totalled \$62.6 million.

INTEREST RATE RISK

The objective of the Company's asset liability management is to control interest rate risk by actively managing its interest rate exposure within limits established by the Investment Committee of the Board of Directors.

The Company manages the re-pricing characteristics of its consolidated assets and liabilities, and as required by regulation, manages interest rate risk on the assets and liabilities of the deposit operations of M.R.S. Trust and Investors Group Trust Co. Ltd. As at December 31, 2005, the total gap between one-year deposit assets and liabilities was well within the Company's stated guidelines.

Contractual Obligations

TABLE 12: CONTRACTUAL OBLIGATIONS

<i>As at December 31, 2005 (\$ millions)</i>	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
Long-term debt ⁽¹⁾	\$ 1,225.0	\$ 25.0	\$ -	\$ -	\$ 1,200.0
Operating leases ⁽²⁾	150.9	36.6	58.6	34.3	21.4
Total contractual obligations	\$ 1,375.9	\$ 61.6	\$ 58.6	\$ 34.3	\$ 1,221.4

(1) Refer to Note 12 of the Consolidated Financial Statements.

(2) Includes office space and equipment used in the normal course of business. Lease payments are charged to earnings in the period of use.

LIQUIDITY REQUIREMENTS

Liquidity requirements for M.R.S. Trust and Investors Group Trust Co. Ltd., which engage in financial intermediary activities, are based on investment policies approved by the investment committees of their respective Boards of Directors. As at December 31, 2005, liquidity for both companies was in compliance with these policies.

CAPITAL RESOURCES

Shareholders' equity increased to \$3.45 billion as at December 31, 2005 from \$3.15 billion at December 31, 2004. Long-term debt was \$1.23 billion at December 31, 2005, unchanged from 2004 levels and is detailed in Note 12 to the Consolidated Financial Statements.

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.

Independent reviews confirm the continuing quality of IGM Financial's balance sheet and the strength of its operations. During 2005, both Standard & Poors (S&P) and the Dominion Bond Rating Service (DBRS) reviewed their ratings of the Company's senior debt and liabilities. The senior debt and liabilities were rated "A" with a stable outlook by both S&P and DBRS.

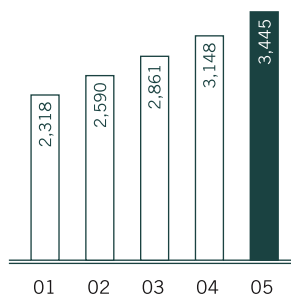
Management is confident that the Company's current capital resources are adequate and can support its activities during 2006.

OFF-BALANCE SHEET ARRANGEMENTS

- *Securitizations* – The Company's liquidity management practices include the periodic transfers of 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 loans through the issuance of mortgage-backed securities. During 2005, the Company entered into securitization transactions through its mortgage banking operation with proceeds of \$251.0 million compared with \$207.1 million in 2004. Securitized loans serviced at December 31, 2005 totalled \$558.8 million compared with \$593.2 million in 2004. The fair-value of the Company's retained interest was \$15.5 million at December 31, 2005 and \$19.7 million in 2004. Additional information related to the Company's securitization activities can be found in Notes 1 and 4 of the Consolidated Financial Statements.
- *Derivative Contracts* – The Company utilizes derivative financial instruments in the management of interest rate and equity market exposures. The Company does not utilize derivative instruments for speculative purposes. The Company enters into interest rate swap arrangements in order to reduce the impact of fluctuating interest rates on its mortgage banking activities and asset liability management. The Company also manages its exposure to market risk on its corporate securities portfolio by using a variety of derivative instruments including options and forward contracts. All derivative contracts are negotiated in the over-the-counter market with Schedule I and Schedule II bank counterparties on a diversified basis. Additional information related to the Company's utilization of derivative contracts can be found in Notes 1 and 15 of the Consolidated Financial Statements.

Shareholders' Equity

As at December 31 (\$ millions)



FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Table 13 presents the carrying value and the fair value of on and off-balance sheet financial instruments.

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.

Details of each component of the financial instruments are contained in the various related notes to the Consolidated Financial Statements.

A description of the material risks and management of the risks associated with the various financial instruments are contained in the Consolidated Financial Position, Consolidated Liquidity and Capital Resources, and Off-balance Sheet Arrangements sections in the MD&A.

TABLE 13: FINANCIAL INSTRUMENTS

As at December 31 (\$ millions)	2005		2004	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 1,068.1	\$ 1,068.1	\$ 865.0	\$ 865.0
Securities	178.0	301.7	126.3	254.1
Loans	513.0	512.6	496.7	499.5
Account and other receivables	161.2	161.2	172.6	172.6
	\$ 1,920.3	\$ 2,043.6	\$ 1,660.6	\$ 1,791.2
Liabilities				
Deposits and certificates	\$ 692.8	\$ 694.3	\$ 711.0	\$ 717.2
Other financial liabilities	480.9	480.9	494.6	494.6
Long-term debt	1,225.0	1,450.0	1,226.8	1,377.5
	\$ 2,398.7	\$ 2,625.2	\$ 2,432.4	\$ 2,589.3
Off-balance sheet derivatives	\$ –	\$ (28.2)	\$ –	\$ (17.7)

Outlook

THE FINANCIAL SERVICES ENVIRONMENT

The financial services industry continues to experience growth and change influenced by:

- Continuing growth of the Canadian economy.
- Shifting demographics as the number of Canadians in their prime savings years continue to increase.
- Regulatory environment changes.
- An evolving competitive landscape.
- Changes in investor attitudes and preferences.

Deregulation, competition and technology have fostered a trend towards financial service providers offering a comprehensive range of products and services in-house. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent forces are obscured as all of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf.

The preferred method of retirement planning by Canadians continues to be in the context of a relationship with a financial advisor. Increased investor awareness and sophistication, driven by these advisory relationships, continues to drive a reconfiguration of household balance sheets from short-term financial assets towards longer term financial assets.

Investment funds, which include mutual funds, remain the most popular financial asset class relied upon by Canadians for their retirement savings, and they represent over one-third of Canadian long-term discretionary financial assets. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

At December 31, 2005, mutual fund industry assets in Canada were \$570.0 billion, an increase of 14.6% relative to December 31, 2004. This \$72.7 billion increase in industry assets from December 31, 2004 reflected net sales of \$23.4 billion, with the remaining \$49.3 billion primarily reflecting investment returns generated during the year.

THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Investors Group, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and also compete with other asset classes, including stocks, bonds and other passive investment vehicles, for share of the investment assets of Canadians.

Canadian banks remain a dominant force in Canadian retail financial services. The banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Recently, bank branches have increased their emphasis on both financial planning and mutual funds. In addition, each of the big six banks has a mutual fund management subsidiary. Collectively, mutual fund assets of the big six bank-owned mutual fund managers represented 31% of total industry mutual fund assets at December 31, 2005 and accounted for approximately 46% of the industry's long-term mutual fund net sales during 2005.

Mutual fund dealers and other financial planning firms represent a significant distribution channel for mutual funds in Canada. The last five years have been characterized by significant consolidation in this sector of the industry, with many of the larger firms being purchased by mutual fund managers and insurers. Despite this level of consolidation activity, the sector remains fragmented. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

As a result of this consolidation activity, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry is very concentrated, with the ten largest firms and their subsidiaries representing 78.6% of industry assets at December 31, 2005. Smaller firms primarily represent niche players.

Management believes scale, access to distribution, and a broad product shelf are key competitive success factors in the financial services industry.

MEETING COMPETITIVE CHALLENGES

Management feels that IGM Financial is well-positioned to meet competitive challenges and capitalize on future opportunities. The Company enjoys several competitive strengths, including:

- Significant economies of scale.
- Significant and diversified distribution with an emphasis on financial advisors.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Part of the Power Financial group of companies, which includes Great-West Life, London Life and Canada Life.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.

Significant Economies of Scale

IGM Financial enjoys a 16.4% share of industry mutual fund assets under management and has nearly double the long-term mutual fund assets of its nearest competitor. This scale provides the Company and its subsidiaries with numerous benefits, including lower unit costs and greater access to capital.

Broad and Diversified Distribution

In addition to owning two of Canada's largest financial planning organizations, Investors Group and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 third party advisors. IGM Financial's businesses are all focused on supporting the enduring relationships developed between a client and a financial advisor.

Broad Product Capabilities

During 2005, as discussed earlier within the segmented results, IGM Financial's subsidiaries continued to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

Part of Power Financial Group of Companies

As part of the Power Financial group of companies, IGM Financial benefits through cost savings from shared service arrangements, as well as through increased access to distribution, products and capital.

Enduring Relationships

IGM Financial enjoys significant advantages as a result of the enduring relationships its advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

THE REGULATORY ENVIRONMENT

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements from the Company's principal regulators including agencies of the federal, provincial and territorial governments in Canada. The members of the Canadian Securities Administrators (CSA) regulate the offering of securities in the provinces and territories. The Company's activities are also regulated by various self-regulatory organizations. Changes in the regulatory framework or failure to comply with any of these laws, rules and regulations could have an adverse financial or reputational effect on the Company.

IGM Financial's core distribution business is regulated by the Mutual Fund Dealers Association (MFDA) of Canada in which the Company's mutual fund dealer subsidiaries are members.

The Company supports regulatory efforts that will protect the interests of clients and preserve the integrity and reputation of the industry and its members.

Mutual Fund Dealers Association of Canada

Investors Group Financial Services Inc., M.R.S. Inc. and IPC Investment Corporation, the Company's mutual fund dealer subsidiaries, are members of the MFDA. This is the self-regulatory organization for the mutual fund dealer industry in every jurisdiction in Canada except Quebec. On July 1, 2005 the MFDA Investor Protection Corporation began providing coverage to protect eligible customers of MFDA Members on a discretionary basis to prescribed limits if securities, cash and other property held by any such Member are unavailable as a result of the Member's insolvency.

Harmonization of Securities Rules

The CSA continues to work towards enhancing public confidence in capital markets and streamlining the securities regulatory process. In 2005 the CSA, or certain of its members, enacted new or amended rules relating to audit committees, corporate governance disclosure, and continuous disclosure for mutual funds. New initiatives regarding independent review committees for investment funds and reporting on internal

controls over financial reporting are expected during 2006. Continued harmonization efforts have been centred around efforts of the members of the CSA with respect to projects such as the mutual reliance system, uniform securities legislation and national registration requirements. There have been continuing efforts to improve the national electronic information systems such as SEDI, SEDAR and NRD.

Elimination of Foreign Content Restrictions

Tax legislation which eliminated the foreign content restrictions applicable to investments by registered plans in foreign property was enacted into law on June 29, 2005. As a result of this change in tax legislation, the continued existence of RSP clone funds is no longer necessary.

These RSP clone funds were originally created to provide clients having investments made through tax-deferred retirement plans, such as RRSPs and RRIFs, with a means to increase their exposure to foreign markets without exceeding the foreign content limit which existed prior to June 29, 2005. This was achieved because the performance of the RSP clone funds tracked the performance of other foreign equity mutual funds (underlying mutual funds) primarily through the use of forward contracts having returns based upon the performance of the underlying mutual funds, while most of the assets of the RSP clone funds were invested in Canadian short-term deposits.

In early July 2005, Mackenzie's RSP clone funds were terminated and investors in these funds received the equivalent value of their investments in the corresponding underlying mutual funds. During the third quarter, Investors Group and Investment Planning Counsel also terminated their RSP clone funds and investors in these funds received the equivalent value of their investments in the corresponding underlying mutual funds.

Investors in the Mackenzie, Investors Group and Investment Planning Counsel RSP clone funds will benefit from the wind-up of the funds through more efficient administration and a corresponding reduction, and in some cases the elimination, of certain costs and expenses.

OTHER RISK FACTORS

Contingencies

Investors Group and Mackenzie are subject to legal actions, including class actions, arising in the normal course of their business. Three class actions related to alleged market timing trading activity in mutual funds of the companies have been commenced. Investors Group 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.

Market Risk

Investor confidence continued to grow throughout 2005. This led to significant increases in mutual fund sales and increases in the level of mutual fund assets under management during the year. 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 under management and sales. In addition, these factors can result in increased redemptions of mutual funds.

REDEMPTION RATES

Redemption rates for long-term funds are summarized in Table 14.

IGM Financial provides Consultants and independent financial advisors with a high level 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. One of the contributing factors in the increase in Mackenzie's redemption rate at December 31, 2005 compared with 2004 is the increase in the proportion of Mackenzie's mutual fund units no longer subject to a redemption fee.

The mutual fund industry and financial advisors are committed to educating Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility our Consultants and independent financial advisors play a key role assisting investors to maintain perspective and focus on their long-term objectives.

TABLE 14: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

As at December 31	2005	2004	2003
IGM Financial Inc.			
Investors Group	8.7%	9.1%	10.7%
Mackenzie	14.8%	13.8%	13.0%
Investment Planning Counsel ⁽¹⁾	9.7%	8.9%	N/A
Mutual Fund Industry, excluding IGM Financial Inc.⁽²⁾	16.5%	15.5%	14.3%

(1) Reflects Investment Planning Counsel from date of acquisition of May 10, 2004.

(2) Excludes Investors Group, Mackenzie and Investment Planning Counsel from date of acquisition.

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 clients which can lead to a strong and personal client relationship based on the client's confidence 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 growing its distribution network of Consultants as discussed in the Investors Group Review of the Business section of the MD&A. As at December 31, 2005, the number of Consultants totalled 3,668 compared with 3,496 at December 31, 2004. This represents an increase of 4.9% in the Consultant network in 2005. Investors Group experienced six consecutive quarters of growth resulting in an increase of 14.4% in the Consultant network since June 30, 2004.
- 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 complete 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. These factors are discussed further in the Mackenzie Review of the Business section of the MD&A.

Accounting Estimates and Policies

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the mutual fund and other financial services industries; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 1 of the Consolidated Financial Statements.

The major critical accounting estimates and related judgments underlying the Company's financial statements are summarized below. Critical accounting estimates relating to goodwill and intangibles, income taxes and deferred selling commissions relate to both the Investors Group and Mackenzie reportable segments while Employee future benefits applies to the Investors Group reportable segment.

- *Goodwill and intangible assets* – At December 31, 2005, goodwill totalled \$2.4 billion and indefinite life intangible assets totalled \$877 million as reflected in Note 7 of the Consolidated Financial Statements. Under the Canadian Institute of Chartered Accountants (CICA) Section 3062 – Goodwill and Other Intangible Assets, the Company is required to test the fair value of goodwill and indefinite life intangible assets for impairment at least once a year. The Company performs that evaluation during the second quarter each year. These tests involve the use of estimates and assumptions appropriate in the circumstances. The annual impairment testing was completed for 2005 and management determined that no impairment charge was necessary.
- *Income taxes* – The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Income. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and, as well, income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related

tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the future tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results and in Note 11 of the Consolidated Financial Statements.

- *Employee Future Benefits* – Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for the determination of accrued benefit obligations. These estimates are discussed in Note 10 of the Consolidated Financial Statements.
- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. Prior to April 1, 2001, the maximum period for amortization for Investors Group was three years. On April 1, 2001 Investors Group revised the period of amortization of these expenditures to reflect a more accurate estimate of their useful life. This estimate is also consistent with that used by Mackenzie. The Company regularly reviews the carrying value of the deferred selling commissions with respect to any events or circumstances that indicate impairment or that an adjustment to the amortization period is necessary.

CHANGES IN ACCOUNTING POLICIES

As disclosed in Note 1 of the Consolidated Financial Statements, IGM Financial adopted the following changes in accounting policies in 2005:

- *CICA Accounting Guideline 15* – Consolidation of Variable Interest Entities (VIEs), effective for annual and interim periods beginning on or after November 1, 2004, requires consolidation of VIEs by the primary beneficiary. The Company completed a review of all of the VIEs in which it has a variable interest and has determined that there are no VIEs requiring consolidation under this guideline except with respect to the Company's share purchase plan compensation trust. The Company is considered the primary beneficiary of the share purchase plan compensation trust. However, the consolidation of this trust does not have a significant impact as both the assets (IGM Financial shares) and the liabilities (the obligation to deliver IGM Financial shares to the participants) of the trust offset each other in the Share Capital section of the Consolidated Balance Sheets.
- *CICA Section 3860* – Financial Instruments – Disclosure and Presentation, effective for fiscal years beginning on or after November 1, 2004, 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 retroactively adopted the amended standard with restatement of prior periods. The Company's preferred shares were reclassified from shareholders' equity to liabilities and the preferred dividends were reclassified to operating expenses in the Consolidated Statements of Income. The change does not have any impact on basic earnings per share or net income available to common shareholders.

FUTURE ACCOUNTING CHANGES

The CICA has issued three new standards: Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income. These will be effective for the Company on January 1, 2007, and require the following:

- *Financial Instruments – Recognition and Measurement* – All financial assets and liabilities will be carried at fair value in the Consolidated Balance Sheets, except the following, which will be carried at amortized cost: loans and receivables and non-trading financial liabilities. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the Consolidated Statements of Income. Unrealized gains and losses on financial assets that are held as available for sale will be recorded in other comprehensive income until realized, when they will be recorded in the Consolidated Statements of Income. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value in the Consolidated Balance Sheets.
- *Hedges* – In a fair value hedge, the change in fair value of the hedging derivative will be offset in the Consolidated Statements of Income against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative to the extent effective will be recorded in other comprehensive income until the asset or liability being hedged affects the Consolidated Statements of Income, at which time the related change in fair value of the derivative will also be recorded in the Consolidated Statements of Income. Any hedge ineffectiveness will be recorded in the Consolidated Statements of Income.
- *Comprehensive Income* – Unrealized gains and losses on financial assets that will be held as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments, will be recorded in a Statements of Other Comprehensive Income until recognized in the Consolidated Statements of Income. Other comprehensive income will form part of shareholders' equity.

The Company is currently evaluating the impact of adopting these standards.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2005, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance in ensuring that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation (a) is recorded,

processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) is accumulated and communicated to the Company's senior management, including the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Other Information

TRANSACTIONS WITH RELATED PARTIES

IGM Financial enters into transactions with Great-West Life, London Life and Canada Life, subsidiaries of its affiliate, GWL. These transactions are in the normal course of business and have been recorded at the agreed upon exchange amounts as described below.

- The Company provided to and received from Great-West Life certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributed life insurance and disability insurance products under a distribution agreement with Great-West Life and Canada Life and received \$37.2 million in distribution fees (2004 – \$17.8 million). London Life distributed certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2005, the Company sold residential mortgage loans to Great-West Life and London Life for \$122.8 million compared to \$76.9 million in 2004.

Mackenzie entered into an arrangement involving a wholly-owned subsidiary of Mackenzie and an entity managed by Mackenzie to facilitate innovative product enhancements. 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 nil at December 31, 2005 (2004 – \$3.7 billion), have been offset and, accordingly, have no impact on the Consolidated Balance Sheets. During the year, Mackenzie earned investment income of \$3.0 million (2004 – \$1.8 million) and incurred interest expense of \$3.0 million (2004 – \$1.8 million) related to this arrangement.

For further information on transactions involving related parties, see Notes 5 and 19 of the Consolidated Financial Statements.

OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2005 totalled 264,539,213. As at February 16, 2006, outstanding common shares totalled 264,653,702.

SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.