

Notes to Consolidated Financial Statements

DECEMBER 31, 2005 AND 2004 *(In thousands of dollars, except shares and per share amounts)*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Consolidation

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

On May 10, 2004, the Company acquired 74.7% of the outstanding common shares of Investment Planning Counsel Inc. (Investment Planning Counsel). During 2005, the Company acquired an additional 0.8% of Investment Planning Counsel for total cash consideration of \$1.1 million. The acquisitions were accounted for by the purchase method. At December 31, 2005, the Company owned 75.5% of Investment Planning Counsel. The Consolidated Financial Statements include its assets and liabilities as of December 31, 2005 and 2004 and the results of its operations and cash flows from the date of acquisition.

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

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 Inc. shares) and the liabilities (the obligation to deliver IGM Financial Inc. shares to the participants) of the trust offset each other in the Share Capital section of the Consolidated Balance Sheets.

Revenue Recognition

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

Cash and Cash Equivalents

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

Securities

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans

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

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

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

Securizations

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

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

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

Deferred Selling Commissions

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

Capital Assets

Capital assets, which are included in Other assets, are recorded at cost of \$259.3 million (2004 – \$248.9 million), less accumulated amortization of \$183.5 million (2004 – \$164.8 million). The properties and related equipment and furnishings are amortized on a straight-line basis over their estimated useful lives.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are reviewed at least annually for impairment using a fair value test and written down for impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. The Company tests intangible assets with a finite life for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. The Company writes down the assets to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

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

Employee Future Benefits

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

The defined benefit pension plan provides pensions based on length of service and final average earnings. An actuarial valuation is performed for funding purposes every three years. The most recent actuarial valuation was completed as at December 31, 2004 and the next required valuation will be completed based on a measurement date of December 31, 2007.

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

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

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

Stock-based Compensation and Other Stock-based Payments

Effective January 1, 2004, CICA 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees (Note 14). On January 1, 2004, the Company adopted the amended standard retroactively without restatement of prior periods for all stock-based compensation and other stock-based payments to employees since 2002. The cumulative effect of adopting the new recommendations in the Company's Consolidated Financial Statements was to both increase Contributed surplus and decrease opening Retained earnings as at January 1, 2004 by \$1.1 million.

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

Income Taxes

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Liabilities and Equity

Effective for fiscal years beginning on or after November 1, 2004, CICA 3860, Financial Instruments – Disclosure and Presentation was amended to require obligations that can be settled at the issuer's option by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. On January 1, 2005, the Company 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.

Earnings Per Share

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

Derivative Financial Instruments

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

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

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

The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking operations and asset liability management. The swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based.

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

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

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

Comparative Figures

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

2. SECURITIES

	2005		2004	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Common shares	\$ 146,146	\$ 265,431	\$ 92,459	\$ 218,007
Investments in mutual funds	31,865	36,259	33,851	36,111
	\$ 178,011	\$ 301,690	\$ 126,310	\$ 254,118

3. LOANS

	TERM TO MATURITY			2005 TOTAL	2004 TOTAL
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Residential mortgages	\$ 115,398	\$ 167,563	\$ 3,957	\$ 286,918	\$ 305,920
Commercial mortgages	9,123	462	–	9,585	15,113
	124,521	168,025	3,957	296,503	321,033
Personal loans	182,615	20,384	21,685	224,684	193,429
	\$ 307,136	\$ 188,409	\$ 25,642	521,187	514,462
Less: General allowance				8,198	17,810
				\$ 512,989	\$ 496,652
Impaired loans included above				\$ 983	\$ 369
Less: General allowance				8,198	17,810
				\$ (7,215)	\$ (17,441)
The change in the allowance for credit losses is as follows:					
Balance, beginning of year				\$ 17,810	\$ 21,495
Write-offs				(208)	(100)
Recoveries				334	204
Reversal of provision for credit losses				(9,738)	(3,789)
Balance, end of year				\$ 8,198	\$ 17,810

4. SECURITIZATIONS

	2005		2004	
	PRINCIPAL AMOUNT SECURITIZED	NET GAIN	PRINCIPAL AMOUNT SECURITIZED	NET GAIN
Commercial paper conduit transactions	\$ 252,254	\$ 4,315	\$ 190,991	\$ 2,460
Mortgage-backed security transactions	\$ -	\$ -	\$ 17,359	\$ 16

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

The key economic assumptions used to value the retained interests at the date of securitization issuances for transactions completed during 2005 and 2004 were as follows:

	2005		2004	
	CP CONDUIT TRANSACTIONS	CP CONDUIT TRANSACTIONS	CP CONDUIT TRANSACTIONS	MBS TRANSACTIONS
Weighted-average				
Remaining service life (in years)	3.7	3.1	3.1	5.0
Interest rate	4.98%	4.97%	4.97%	5.04%
Coupon rate of securities issued	4.00%	4.07%	4.07%	3.99%
Prepayment rate	15.00%	15.00%	15.00%	18.90%
Discount rate	4.55%	4.51%	4.51%	4.35%
Servicing fees	0.25%	0.25%	0.25%	0.23%
Expected credit losses	0.05%	0.05%	0.05%	N/A

At December 31, 2005, the fair value of the total retained interests was \$15.5 million (2004 – \$19.7 million).

The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

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

	2005	2004
Mortgages	\$ 826,202	\$ 869,141
Personal loans	245,624	220,733
	1,071,826	1,089,874
Less: Securitized loans serviced	558,837	593,222
Total on-balance sheet loans	\$ 512,989	\$ 496,652
Proceeds from new securitizations	\$ 250,993	\$ 207,110
Cash flows received on retained interests	\$ 10,772	\$ 13,975

5. INVESTMENT IN AFFILIATE

	2005	2004
Carrying value, beginning of year	\$ 490,716	\$ 460,655
Share of earnings	72,381	71,056
Dividends	(30,608)	(25,884)
Foreign currency translation and other adjustments	(22,768)	(15,111)
Carrying value, end of year	\$ 509,721	\$ 490,716
Share of equity, end of year	\$ 369,946	\$ 351,487
Fair value, end of year	\$ 1,160,073	\$ 1,008,923

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

6. OTHER ASSETS

	2005	2004
Accounts and other receivables	\$ 161,201	\$ 172,580
Capital assets	75,780	84,095
Deferred and prepaid expenses	50,501	63,735
Accrued benefit asset (<i>Note 10</i>)	43,339	42,325
Other	5,652	8,982
	\$ 336,473	\$ 371,717

7. GOODWILL AND INTANGIBLE ASSETS

During the fourth quarter of 2004, the Company performed an evaluation of the fair value of the assets acquired and liabilities assumed on the acquisition of Investment Planning Counsel (Note 21). The amount assigned to intangible assets represents the fair value of mutual fund management and distribution contracts acquired. The management contracts have indefinite useful lives and are not subject to amortization. The distribution contracts are amortized on a straight-line basis over a useful life not to exceed 20 years. In the second quarter of 2005, the Company finalized the allocation of goodwill.

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

2005				
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Balance, beginning of year	\$ 1,346,245	\$ 923,590	\$ 101,756	\$ 2,371,591
Acquired during the year	–	–	972	972
Allocation of goodwill	1,536	19,960	(21,496)	–
Goodwill adjustment	–	–	920	920
Balance, end of year	\$ 1,347,781	\$ 943,550	\$ 82,152	\$ 2,373,483

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

The components of other intangible assets are as follows:

2005					
	FINITE-LIFE	INDEFINITE-LIFE			TOTAL
	DISTRIBUTION CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL	
Carrying value	\$ 24,421	\$ 608,764	\$ 268,368	\$ 877,132	\$ 901,553
Acquired during the year	964	89	–	89	1,053
Accumulated amortization	(2,426)	–	–	–	(2,426)
Net carrying value	\$ 22,959	\$ 608,853	\$ 268,368	\$ 877,221	\$ 900,180

2004					
	FINITE-LIFE	INDEFINITE-LIFE			TOTAL
	DISTRIBUTION CONTRACTS	MUTUAL FUND MANAGEMENT CONTRACTS	TRADE NAMES	TOTAL	
Carrying value	\$ –	\$ 591,580	\$ 268,368	\$ 859,948	\$ 859,948
Acquired during the year	24,421	17,184	–	17,184	41,605
Accumulated amortization	(1,109)	–	–	–	(1,109)
Net carrying value	\$ 23,312	\$ 608,764	\$ 268,368	\$ 877,132	\$ 900,444

8. DEPOSITS AND CERTIFICATES

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents and loans amounting to \$692.8 million (2004 – \$711.0 million) related to deposits and certificates.

	DEMAND	TERM TO MATURITY			2005 TOTAL	2004 TOTAL
		1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS		
Deposits	\$ 484,347	\$ 81,613	\$ 117,205	\$ 2,452	\$ 685,617	\$ 702,668
Certificates	–	713	2,079	4,361	7,153	8,282
	\$ 484,347	\$ 82,326	\$ 119,284	\$ 6,813	\$ 692,770	\$ 710,950

9. OTHER LIABILITIES

	2005	2004
Accounts payable and accrued liabilities	\$ 324,949	\$ 350,925
Taxes payable	143,407	102,884
Dividends payable	91,266	79,380
Interest payable	14,473	14,563
Accrued benefit liabilities (Note 10)	50,199	45,425
Deferred revenue	9,962	11,840
	\$ 634,256	\$ 605,017

10. EMPLOYEE FUTURE BENEFITS

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

	2005			2004		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Fair value of plan assets						
Balance, beginning of year	\$ 167,636	\$ -	\$ -	\$ 154,767	\$ -	\$ -
Employee contributions	2,678	-	-	2,633	-	-
Benefits paid	(6,787)	-	-	(6,639)	-	-
Actual return on plan assets	26,731	-	-	16,875	-	-
Balance, end of year	190,258	-	-	167,636	-	-
Accrued benefit obligation						
Balance, beginning of year	119,788	15,236	34,462	106,573	11,515	30,329
Benefits paid	(6,787)	(735)	(688)	(6,639)	(722)	(1,025)
Current service cost	4,313	398	1,630	3,787	351	1,459
Employee contributions	2,678	-	-	2,633	-	-
Interest cost	7,493	942	2,310	7,027	925	2,111
Actuarial losses (gains)	20,170	2,637	(6,350)	6,407	3,167	1,588
Balance, end of year	147,655	18,478	31,364	119,788	15,236	34,462
Funded status – plan surplus (deficit)	42,603	(18,478)	(31,364)	47,848	(15,236)	(34,462)
Unamortized net actuarial losses (gains)	736	3,009	(3,366)	(5,523)	1,148	3,125
Accrued benefit asset (liability)	\$ 43,339	\$ (15,469)	\$ (34,730)	\$ 42,325	\$ (14,088)	\$ (31,337)

The asset allocation by asset category of the defined benefit pension plan is equity securities 61% (2004 – 56%), fixed income securities 34% (2004 – 42%) and cash equivalents 5% (2004 – 2%).

10. EMPLOYEE FUTURE BENEFITS *(continued)*

	2005			2004		
	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS	DEFINED BENEFIT PENSION PLAN	SERP	OTHER POST- RETIREMENT BENEFITS
Benefit (income) expense was determined as follows:						
Current service cost	\$ 4,313	\$ 398	\$ 1,630	\$ 3,787	\$ 351	\$ 1,459
Interest cost on accrued benefit obligation	7,493	942	2,310	7,027	925	2,111
Expected return on plan assets	(11,591)	–	–	(10,694)	–	–
Amortization of net actuarial (gains) losses	(1,230)	776	141	(1,553)	83	43
	\$ (1,015)	\$ 2,116	\$ 4,081	\$ (1,433)	\$ 1,359	\$ 3,613
Significant weighted-average actuarial assumptions:						
Discount rate	5.30%	5.25%	5.40%	6.25%	6.25%	6.50%
Expected long-term rate of return on plan assets	7.00%	N/A	N/A	7.00%	N/A	N/A
Rate of compensation increase	4.60%	2.75%	N/A	6.10%	6.10%	N/A
Health care cost trend rate ⁽¹⁾	N/A	N/A	10.00%	N/A	N/A	10.00%

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

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued other post-retirement benefit obligation of \$6.5 million as at December 31, 2005 and an increase in the 2005 other post-retirement benefit expense of \$0.9 million. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-retirement benefit obligation of \$5.1 million as at December 31, 2005 and a decrease in the 2005 other post-retirement benefit expense of \$0.7 million.

In addition, the Company maintains a group RSP available only to certain employees. In 2005, the Company's contributions were \$5.2 million (2004 – \$5.0 million).

11. INCOME TAXES

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

	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 <i>(Note 5)</i>	(2.72)	(3.06)
Preferred dividend paid	0.79	0.90
Other items	(3.06)	(2.33)
Effective income tax rate	29.89%	30.72%
Components of income tax expense are:		
Current income taxes	\$ 264,631	\$ 219,487
Future income taxes	26,869	45,482
	\$ 291,500	\$ 264,969

Future income taxes consist of the following taxable temporary differences:

	2005	2004
Future income tax assets		
Accrued benefit liabilities	\$ 18,371	\$ 17,645
Allowance for credit losses	2,921	6,607
Investment revaluations	6,144	9,434
Non-capital loss carryforwards	13,164	59,229
Restructuring costs	2,375	5,136
Other	36,628	43,299
	79,603	141,350
Future income tax liabilities		
Accrued benefit asset	15,162	15,059
Deferred selling commissions	333,710	305,670
Intangible assets	164,572	164,811
Unrealized gains on securities	-	59,707
Other	15,876	18,951
	529,320	564,198
Future income taxes	\$ 449,717	\$ 422,848

As at December 31, 2005, the Company has non-capital losses of \$90.4 million (2004 – \$112.7 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2007 – \$1.6 million; 2008 – \$5.7 million; 2009 – \$4.4 million; 2010 – \$40 million; 2013 – \$0.2 million and 2014 – \$38.5 million.

12. LONG-TERM DEBT

	RATE	MATURITY	2005	2004
Debtures in Series ⁽¹⁾				
1997	6.65%	December 13, 2027	\$ 125,000	\$ 125,000
2001	6.75%	May 9, 2011	450,000	450,000
2001	7.45%	May 9, 2031	150,000	150,000
2002	7.00%	December 31, 2032	175,000	175,000
2003	6.58%	March 7, 2018	150,000	150,000
2003	7.11%	March 7, 2033	150,000	150,000
Note payable to related party				
Power Financial Corporation	10.60%	January 16, 2006	25,010	26,795
			\$ 1,225,010	\$ 1,226,795

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

Interest expense relating to long-term debt was \$85.7 million (2004 – \$90.9 million).

The note payable to Power Financial Corporation was repaid on January 16, 2006. There are no other required principal repayments in the next five years.

13. SHARE CAPITAL

Authorized

Unlimited number of:

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

Issued and outstanding

	2005		2004	
	SHARES	STATED VALUE	SHARES	STATED TOTAL
First preferred shares, Series A	14,400,000	\$ 360,000	14,400,000	\$ 360,000
Common shares				
Balance, beginning of year	264,598,380	\$ 1,475,405	264,089,791	\$ 1,446,063
Issued under Stock Option Plan (Note 14)	525,533	9,382	529,893	9,138
Purchased for cancellation	(584,700)	(3,268)	(756,100)	(4,162)
Issued on acquisition of Investment Planning Counsel (Note 21)	–	–	734,796	24,366
Balance, end of year	264,539,213	\$ 1,481,519	264,598,380	\$ 1,475,405

13. SHARE CAPITAL *(continued)*

Preferred Shares

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

Normal Course Issuer Bid

The Company commenced a normal course issuer bid, effective for one year, on February 23, 2005. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares as at February 18, 2005. As at December 31, 2005, 584,700 shares were purchased at a cost of \$23.3 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

On February 22, 2004, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.2 million or 5% of its common shares outstanding as at January 31, 2004. As at December 31, 2004, 756,100 shares were purchased at a cost of \$26.9 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

14. STOCK-BASED COMPENSATION

Stock Option Plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees and financial planning consultants at prices not less than the fair market value of such shares immediately prior to the grant date. The options are subject to time and/or performance vesting conditions set out at the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2005, 17,852,915 (2004 – 18,378,448) common shares were reserved for issuance under the Plan.

During 2005, the Company granted 1,920,800 options to employees (2004 – 1,522,500) and nil options to non-employees (2004 – 88,750). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of options granted during the year ended December 31, 2005 has been estimated at \$7.76 per option (2004 – \$7.19) using the Black-Scholes option pricing model, based on the following assumptions: (i) risk-free interest rate of 4.04% (2004 – 4.01%), (ii) expected option life of six years (2004 – six years), (iii) expected volatility of 25.00% (2004 – 25.00%) and (iv) expected dividend yield of 3.42% (2004 – 3.28%).

The Company recorded compensation expense related to its stock option program of \$5.0 million (2004 – \$2.9 million).

14. STOCK-BASED COMPENSATION *(continued)*

	2005		2004	
	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE
Balance, beginning of year	7,243,068	\$ 24.23	6,303,023	\$ 21.21
Granted	1,920,800	37.69	1,611,250	33.82
Exercised	(525,533)	17.52	(529,893)	17.12
Cancelled	(186,575)	30.34	(141,312)	25.38
Balance, end of year	8,451,760	\$ 27.57	7,243,068	\$ 24.23
Exercisable, end of year	3,854,090	\$ 21.99	2,752,397	\$ 19.80

Options outstanding at December 31, 2005	EXPIRY DATE	EXERCISE PRICE (\$)	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
	2007	12.98	41,920	41,920
	2008	20.99	55,950	55,950
	2009	20.00–24.27	322,070	322,070
	2010	17.00	44,000	44,000
	2011	19.83–22.78	3,166,274	2,655,124
	2012	27.81	92,640	46,746
	2013	25.66–28.66	1,333,533	419,852
	2014	33.52–35.77	1,505,173	268,428
	2015	37.09–37.78	1,890,200	–
			8,451,760	3,854,090

Share Purchase Plans

Under the Company's share purchase plans, eligible employees and financial planning consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled \$8.2 million (2004 – \$6.3 million).

Deferred Share Unit Plan

The Company has a deferred share unit plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the Plan, directors are required to receive 50% of their annual retainer in the form of deferred share units and may elect to receive the balance of their annual retainer in cash or deferred share units. Directors may elect to receive their attendance fees in a combination of deferred share units and cash. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (the "value of deferred share unit"). A director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. Deferred share units are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2005, the fair value of the deferred share units outstanding was \$4.7 million (2004 – \$2.9 million). Changes in the fair value of the deferred share unit plan are recognized in Non-commission expense during the period in which the change occurs.

15. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	NOTIONAL AMOUNT				CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
2005						
Swaps	\$ 127,745	\$ 417,685	\$ 3,868	\$ 549,298	\$ 3,686	\$ 3,130
Options purchased	–	23,179	–	23,179	76	76
Options written	–	31,106	–	31,106	–	(29,259)
Forward contracts	6,091	–	–	6,091	964	962
	\$ 133,836	\$ 471,970	\$ 3,868	\$ 609,674	\$ 4,726	\$ (25,091)
2004						
Swaps	\$ 157,093	\$ 398,601	\$ 4,414	\$ 560,108	\$ 6,935	\$ 2,583
Options purchased	24,336	23,179	–	47,515	1,200	1,200
Options written	29,364	31,106	–	60,470	–	(16,560)
Forward contracts	10,878	5,100	–	15,978	120	(2,365)
	\$ 221,671	\$ 457,986	\$ 4,414	\$ 684,071	\$ 8,255	\$ (15,142)

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2005		2004	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	\$ 1,068,061	\$ 1,068,061	\$ 864,990	\$ 864,990
Securities	178,011	301,690	126,310	254,118
Loans	512,989	512,582	496,652	499,457
Accounts and other receivables	161,201	161,201	172,580	172,580
Total financial assets	\$ 1,920,262	\$ 2,043,534	\$ 1,660,532	\$ 1,791,145
Liabilities				
Deposits and certificates	\$ 692,770	\$ 694,302	\$ 710,950	\$ 717,184
Other financial liabilities	480,887	480,887	494,612	494,612
Long-term debt	1,225,010	1,450,011	1,226,795	1,377,496
Total financial liabilities	\$ 2,398,667	\$ 2,625,200	\$ 2,432,357	\$ 2,589,292
Off-balance sheet derivatives <i>(Note 15)</i>	\$ -	\$ (28,221)	\$ -	\$ (17,725)

Fair value is determined using the following methods and assumptions:

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

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

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

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

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

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

17. EARNINGS PER COMMON SHARE

	2005	2004
Earnings		
Net income	\$ 682,427	\$ 596,396
Number of common shares (in thousands)		
Average number of common shares outstanding	264,573	264,431
Add:		
– Potential exercise of outstanding stock options	2,036	1,579
Average number of common shares outstanding – Diluted basis	266,609	266,010
Earnings per common share (in dollars)		
Basic	\$ 2.58	\$ 2.26
Diluted	\$ 2.56	\$ 2.24

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

18. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Contingencies

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.

Commitments

The Company is committed to the following annual lease payments under its operating leases: 2006 – \$36.6 million; 2007 – \$32.0 million; 2008 – \$26.6 million; 2009 – \$19.2 million; and 2010 and thereafter – \$36.5 million.

Guarantees

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

19. RELATED PARTY TRANSACTIONS

The Company enters into transactions with The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), subsidiaries of its affiliate, Lifeco. These transactions are in the normal course of operations and have been recorded at the agreed upon exchange amounts.

During 2005 and 2004, the Company provided to and received from Great-West, a member of the Power Financial Corporation group of companies, certain administrative services. The Company distributes life insurance and disability insurance products under a distribution agreement with Great-West and Canada Life and received \$37.2 million in distribution fees (2004 – \$17.8 million). London Life distributes certain mutual funds of the Company.

During 2005, the Company sold residential mortgage loans to Great-West and London Life for \$122.8 million (2004 – \$76.9 million).

Mackenzie Financial Corporation (Mackenzie), a subsidiary of the Company, is party to a set off arrangement involving a wholly-owned subsidiary of Mackenzie and an entity managed by Mackenzie. As part of this arrangement, the parties have the legal right and intent to settle on a net basis certain related party financial assets and liabilities. These assets and liabilities, which totalled 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 thereto.

20. SEGMENTED INFORMATION

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

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

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

	2005			
	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 921,015	\$ 691,324	\$ 32,398	\$ 1,644,737
Administration	166,673	138,004	2,714	307,391
Distribution	113,778	33,961	64,605	212,344
Net investment income and other	126,360	19,052	37,696	183,108
	1,327,826	882,341	137,413	2,347,580
Operating expenses				
Commissions	326,496	339,934	60,041	726,471
Non-commission	265,461	258,890	30,975	555,326
	591,957	598,824	91,016	1,281,797
Earnings before undernoted	\$ 735,869	\$ 283,517	\$ 46,397	1,065,783
Interest expense				90,425
Income before income taxes and non-controlling interest				975,358
Income taxes				291,500
Income before non-controlling interest				683,858
Non-controlling interest				1,431
Net income				\$ 682,427
Identifiable assets	\$ 1,364,130	\$ 2,197,908	\$ 871,355	\$ 4,433,393
Goodwill	1,347,781	943,550	82,152	2,373,483
Total assets	\$ 2,711,911	\$ 3,141,458	\$ 953,507	\$ 6,806,876

20. SEGMENTED INFORMATION *(continued)*

2004

	INVESTORS GROUP	MACKENZIE	CORPORATE AND OTHER	TOTAL
Fee and net investment income				
Management	\$ 830,273	\$ 645,511	\$ 15,873	\$ 1,491,657
Administration	156,293	140,498	2,821	299,612
Distribution	94,189	35,599	34,683	164,471
Net investment income and other	123,322	15,841	24,168	163,331
	1,204,077	837,449	77,545	2,119,071
Operating expenses				
Commissions	264,050	320,152	32,504	616,706
Non-commission	273,766	255,651	14,839	544,256
	537,816	575,803	47,343	1,160,962
Earnings before undernoted	\$ 666,261	\$ 261,646	\$ 30,202	958,109
Interest expense				95,593
Income before income taxes and non-controlling interest				862,516
Income taxes				264,969
Income before non-controlling interest				597,547
Non-controlling interest				1,151
Net income				\$ 596,396
Identifiable assets	\$ 1,324,433	\$ 2,169,708	\$ 607,479	\$ 4,101,620
Goodwill	1,346,245	923,590	101,756	2,371,591
Total assets	\$ 2,670,678	\$ 3,093,298	\$ 709,235	\$ 6,473,211

21. ACQUISITION OF INVESTMENT PLANNING COUNSEL

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

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

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Fair value of assets acquired:	
Cash and cash equivalents	\$ 12,035
Deferred selling commissions	7,837
Future income taxes	2,541
Other assets	27,135
Management contracts	17,147
Distribution contracts	24,421
	91,116
Less fair value of liabilities assumed:	
Deposits	20,564
Other liabilities	50,050
Long-term debt	23,044
	93,658
Fair value of net assets acquired	(2,542)
Goodwill	102,814
Total purchase consideration	\$ 100,272

Included in Other liabilities are accruals for contract termination costs of \$26.7 million which were paid during the second quarter of 2004, and other restructuring costs of \$5.5 million related to the acquisition.