

This prospectus supplement, together with the short form base shelf prospectus dated February 19, 2004 (the "Prospectus") to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the Prospectus, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

The securities to be issued hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered, sold or delivered, directly or indirectly, within the United States of America and its territories and possessions or to, or for the account or benefit of, United States persons.

Information has been incorporated by reference in this prospectus supplement from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice-President and General Manager, Corporate Affairs and Secretary, Industrial Alliance Insurance and Financial Services Inc., 1080 Grande Allée West, Québec City, Québec, G1K 7M3, telephone (418) 684-5000 or fax (418) 684-5185, and are also available electronically at www.sedar.com. For the purpose of the Province of Québec, this prospectus supplement contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the Vice-President and General Manager, Corporate Affairs and Secretary of Industrial Alliance Insurance and Financial Services Inc. at the above-mentioned address and telephone number and is also available electronically at www.sedar.com.

PROSPECTUS SUPPLEMENT

(to a short form base shelf prospectus dated February 19, 2004)

New Issue

February 13, 2006



\$125,000,000

5,000,000 Non-Cumulative Class A Preferred Shares Series B

The holders of Non-Cumulative Class A Preferred Shares Series B (the "Series B Preferred Shares") of Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance" or the "Company") will be entitled to receive fixed non-cumulative preferential cash dividends, payable quarterly on March 31, June 30, September 30 and December 31 in each year, as and when declared by the Board of Directors of Industrial Alliance, at a quarterly rate of \$0.2875 per Series B Preferred Share. The initial dividend, if declared, will be payable on March 31, 2006 and will amount to \$0.1118 per Series B Preferred Share, based on an anticipated closing date of February 24, 2006. See "Details of the Offering".

Subject to the provisions of *An Act respecting Insurance* (Québec), including the regulations, rules, policy statements, instruments and guidelines thereunder (the "Insurance Act") and the prior consent of the Autorité des marchés financiers (the "AMF"), on and after March 31, 2011, Industrial Alliance may redeem at any time all or from time to time any part of the outstanding Series B Preferred Shares, at Industrial Alliance's option, by the payment of an amount in cash (the "Redemption Price") for each Series B Preferred Share of \$26.00 if redeemed during the 12 months commencing March 31, 2011, \$25.75 if redeemed during the 12 months commencing March 31, 2012, \$25.50 if redeemed during the 12 months commencing March 31, 2013, \$25.25 if redeemed during the 12 months commencing March 31, 2014, and \$25.00 if redeemed on or after March 31, 2015, together in each case with an amount equal to the sum of (i) all declared and unpaid dividends in respect of completed quarters preceding the date fixed for redemption (or conversion or purchase, as applicable); and (ii) an amount equal to the cash dividend in respect of the quarter in which the redemption (or conversion or purchase, as applicable) occurs, whether declared or not, pro rated to such date. See "Details of the Offering".

In the opinion of counsel, the Series B Preferred Shares, if issued on the date hereof, would qualify for investment under the *Income Tax Act* (Canada) (the "Tax Act") as set forth under "Eligibility for Investment".

The Toronto Stock Exchange ("TSX") has conditionally approved the listing of the Series B Preferred Shares. Listing is subject to Industrial Alliance fulfilling all of the requirements of the TSX on or before May 9, 2006.

Industrial Alliance's head office is located at 1080 Grande Allée West, Québec City, Québec, G1K 7M3.

Price: \$25.00 per Series B Preferred Share to yield 4.60 %

	Price to Public	Underwriters' Fee⁽¹⁾	Net Proceeds to Industrial Alliance⁽²⁾
Per Series B Preferred Share	\$25.00	\$0.75	\$24.25
Total.....	\$125,000,000	\$3,750,000	\$121,250,000

(1) The Underwriters' fee is \$0.25 for each Series B Preferred Share sold to certain institutions and \$0.75 for all other Series B Preferred Shares which are sold. The totals set forth in the table represent the Underwriters' fee and net proceeds assuming no Series B Preferred Shares are sold to such institutions.

(2) Before deduction of expenses of this issue payable by Industrial Alliance estimated at \$200,000.

Scotia Capital Inc., National Bank Financial Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Desjardins Securities Inc., Industrial Alliance Securities Inc. and Merrill Lynch Canada Inc. (collectively, the "Underwriters"), as principals, conditionally offer the Series B Preferred Shares, subject to prior sale if, as and when issued by Industrial Alliance and accepted by the Underwriters in accordance with the terms and conditions of the underwriting agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of Industrial Alliance by Desjardins Ducharme, L.L.P. and on behalf of the Underwriters by Fasken Martineau DuMoulin LLP. **Industrial Alliance Securities Inc. is a wholly-owned subsidiary of Industrial Alliance. Industrial Alliance is a "related" issuer of Industrial Alliance Securities Inc. under applicable securities legislation by virtue of Industrial Alliance's interest in Industrial Alliance Securities Inc. See "Plan of Distribution".**

Industrial Alliance has been advised by the Underwriters that, in connection with this offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Series B Preferred Shares at levels other than those that might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. **The Underwriters may offer Series B Preferred Shares at a price lower than the offering price of \$25.00.** See "Plan of Distribution".

Subscriptions for the Series B Preferred Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on February 24, 2006 or on such other date as Industrial Alliance and the Underwriters may agree but not later than March 7, 2006. Series B Preferred Shares will be available for delivery in book-entry form only through the facilities of The Canadian Depository for Securities Limited or a successor ("CDS"), on or about closing. Purchasers of Series B Preferred Shares will not have the right to receive physical certificates evidencing their ownership of Series B Preferred Shares. See "Depository Services".

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In this prospectus supplement, unless otherwise indicated, capitalized terms which are defined in the Prospectus are used herein with the meaning defined therein. All references to “dollars” in this prospectus supplement are to Canadian dollars unless otherwise indicated.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained or incorporated by reference in this prospectus supplement, including those relating to the Company’s strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of the Company. These statements are not historical facts but instead represent only the Company’s expectations, estimates and projections regarding future events.

Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The Company’s future results and stockholder value may differ materially from those expressed in these forward-looking statements due to, among other factors, the factors detailed in the Company’s filings with Canadian securities regulators, including its annual and interim management’s discussion and analysis, and annual and interim financial statements and the notes thereto.

Factors that could cause actual results to differ materially from expectations include, but are not limited to, legislative or regulatory developments, competition, technological changes, global capital market activity, interest rates, changes in demographic data and general economic condition in Canada or elsewhere in the world. These and other factors should be considered carefully and undue reliance should not be placed on Industrial Alliance’s forward-looking statements. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus supplement or to reflect the occurrence of unanticipated events, except as required by law.

DOCUMENTS INCORPORATED BY REFERENCE

This prospectus supplement is deemed to be incorporated by reference, as of the date hereof, in the Prospectus solely for the purpose of this offering. The following documents have been filed by Industrial Alliance with the securities commissions or similar authorities in each province of Canada and are also incorporated by reference into the Prospectus:

- (a) Annual Information Form dated March 28, 2005 for the year ended December 31, 2004;
- (b) audited comparative consolidated financial statements and the notes thereto for the years ended December 31, 2004 and 2003, together with the auditors' report thereon, as set out on pages 72 to 110 of the Company's 2004 Annual Report;
- (c) report of the appointed actuaries for the years ended December 31, 2004 and 2003, as set out on page 74 of the Company's 2004 Annual Report;
- (d) management's discussion and analysis of results of operations and financial position for the audited comparative consolidated financial statements referred to in paragraph (b), as set out on pages 27 to 71 of the Company's 2004 Annual Report;
- (e) restated interim unaudited consolidated comparative financial statements as at and for the three and nine-month periods ended September 30, 2005 and 2004;
- (f) amended management's discussion and analysis of results of operations and financial position for the three and nine-month periods ended September 30, 2005;
- (g) unaudited consolidated comparative financial statements as at and for the three months and the years ended December 31, 2005 and 2004, together with the press release issued in connection therewith as filed on February 8, 2006; and
- (h) management proxy circular dated March 14, 2005 in connection with the annual and special meeting of shareholders held on May 4, 2005 (excluding those portions which, pursuant to National Instrument 44-101 of the Canadian Securities Administrators, are not required to be incorporated by reference herein).

Other documents are also incorporated or deemed to be incorporated by reference in the Prospectus and reference should be made to the Prospectus for full particulars of those documents. See "Documents Incorporated by Reference" in the Prospectus.

Material change reports of Industrial Alliance (excluding confidential material change reports), interim consolidated financial statements of Industrial Alliance (including the management's discussion and analysis of results of operations and financial condition in the quarterly reports for such periods), annual audited consolidated financial statements of Industrial Alliance (including the auditors' report thereon and the management's discussion and analysis of results of operations and financial condition related thereto) and information circulars (excluding those portions which, pursuant to National Instrument 44-101 of the Canadian Securities Administrators, are not required to be incorporated by reference herein) which are required to be filed by Industrial Alliance with a securities commission or similar authority in Canada after the date of this prospectus supplement and prior to the termination of the offering under this prospectus supplement will be deemed to be incorporated by reference into this prospectus supplement.

Any statement contained in the Prospectus, in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference herein or in the Prospectus for the purposes of this offering will be deemed to be modified or superseded, for purposes of this prospectus supplement, to the extent that a statement contained herein or in the Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein or in the Prospectus modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or included any other information set forth in the document that it modifies or supersedes. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Information has been incorporated by reference in this prospectus supplement from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated by reference may be obtained on request without charge from the Vice-President and General Manager, Corporate Affairs and Secretary, Industrial Alliance Insurance and Financial Services Inc., 1080 Grande Allée West, Québec City, Québec, G1K 7M3, telephone (418) 684-5000 or fax (418) 684-5185, and are also available electronically at www.sedar.com.

For the purpose of the Province of Québec, this prospectus supplement contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the Vice-President and General Manager, Corporate Affairs and Secretary of Industrial Alliance Insurance and Financial Services Inc. at the above-mentioned address and telephone number and is also available electronically at www.sedar.com.

ELIGIBILITY FOR INVESTMENT

In the opinion of Desjardins Ducharme, L.L.P., counsel to Industrial Alliance, and Fasken Martineau DuMoulin LLP, counsel to the Underwriters, as long as a class of shares of Industrial Alliance are listed on a prescribed stock exchange, the Series B Preferred Shares would, if issued on the date hereof, be qualified investments under the Tax Act and the regulations thereunder (the “Regulations”) for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan or a deferred profit sharing plan.

RECENT DEVELOPMENTS

On November 6, 2005, Industrial Alliance entered into an agreement with Clarington Corporation (“Clarington”), an independent wealth management company promoting, managing and distributing mutual funds and closed-end funds through its wholly-owned subsidiaries, ClaringtonFunds Inc. and Clarington Investments Inc., and having \$4.3 billion of assets under management as at November 30, 2005. Pursuant to such agreement, Industrial Alliance made a cash offer to acquire all the issued and outstanding common shares of Clarington on a fully-diluted basis by way of take-over bid at a price of \$14.25 per share.

Under the offer dated November 18, 2005, each shareholder of Clarington was offered, at its option, \$14.25 per Clarington common share in cash and/or Industrial Alliance Common Shares. The cash option was not subject to limitation or pro-ration, while the share option was subject to pro-ration based upon a maximum of 25% of the purchase price. Following notice from Clarington of a competing transaction, Industrial Alliance announced on December 2, 2005 that it had increased its offer to \$15.00 per Clarington common share. On December 28, 2005, Industrial Alliance took up the tendered Clarington common shares and decided to extend its offer until January 10, 2006, for shareholders that had not yet deposited their Clarington common shares. On January 10, 2006, Industrial Alliance announced that during the extension of its purchase offer, it had acquired a number of additional common shares of Clarington that, together with the Clarington common shares acquired previously and the Clarington common shares already held by Industrial Alliance, represented approximately 98.24% of Clarington’s issued and outstanding common shares. On January 13, 2006, as Industrial Alliance had acquired over 90% of the Clarington common shares pursuant to the offer, it provided shareholders of Clarington with notice of its intention to exercise its right to the compulsory acquisition of the Clarington common shares not purchased by it under the offer. On February 7, 2006, as a result of the exercise of its compulsory acquisition right, Industrial Alliance had acquired 100% of the Clarington common shares.

Pursuant to the offer, Industrial Alliance issued a total of approximately 1,800,000 Common Shares and disbursed approximately \$165,000,000 in cash as consideration for the Clarington common shares acquired, representing an aggregate consideration of approximately \$216,000,000, including amounts disbursed for open market purchases of Clarington common shares. The cash consideration was financed using Industrial Alliance’s cash resources.

Industrial Alliance believes that the combination of the mutual fund operations of Industrial Alliance and Clarington will create significant benefits and opportunities that will allow Industrial Alliance and Clarington to better serve their customers with enhanced financial and other resources and better compete in the financial services industry. Those benefits include the following:

Creation of a scale player with more than \$10 billion in retail funds

The combination of Industrial Alliance and Clarington results in over \$10.2 billion of combined mutual fund and segregated funds under management and more than 500,000 clients across Canada. The combined operations have the scale to compete as a strong alternative in the current marketplace.

Creation of cost savings for both shareholders and mutual fund investors alike

Industrial Alliance will use excess capacity and take advantage of its existing infrastructure to create cost synergies that benefits both shareholders and investors in Clarington mutual funds. The benefits of combined scale will result in significant improvements to management expense ratios for Clarington mutual fund investors than would have been available to them as a stand-alone entity.

Strengthened operation with a national presence

Clarington's strong brand, product offering, and strong distribution capabilities in Ontario and Western Canada are well complemented by Industrial Alliance's balance sheet, affiliated dealer network, and strong Québec presence.

Broadened product development capabilities

Industrial Alliance will continue Clarington's commitment to offer financial advisors and their clients innovative products of the highest quality, backed by industry leading levels of support.

DETAILS OF THE OFFERING

The following is a summary of certain provisions of the Series B Preferred Shares offered hereby, which does not purport to be complete. Reference should also be made to the Prospectus for further Class A Preferred Shares provisions applicable to the Series B Preferred Shares.

Issuance in Series

The Board of Directors of Industrial Alliance may from time to time issue Class A Preferred Shares in one or more series. Before any shares of a series are issued, the Board of Directors will fix the number of shares that will form the series and, subject to any limitations set out in the articles of Industrial Alliance, the designation of Class A Preferred Shares series, as well as the rights, privileges, restrictions and conditions attaching thereto. Before the issue of any shares of a series, the Board of Directors will amend the articles so as to include therein the number and designation as well as the rights, privileges, restrictions and conditions of the series so created.

Issue Price

The Series B Preferred Shares will have an issue price of \$25.00 per share.

Dividends

The holders of Series B Preferred Shares will be entitled to receive fixed non-cumulative preferential cash dividends, payable quarterly on March 31, June 30, September 30 and December 31 in each year, as and when declared by the Board of Directors of Industrial Alliance, and subject to the provisions of the Insurance Act, at a quarterly rate of \$0.2875 per Series B Preferred Share. The initial dividend, if declared, will be payable on March 31, 2006 and will amount to \$0.1118 per Series B Preferred Share, based on an anticipated closing date of February 24, 2006.

If the Board of Directors of Industrial Alliance does not declare any dividend or part thereof on the Series B Preferred Shares on or before the dividend payment date for a particular quarter, then the right of the holders of the Series B Preferred Shares to such dividend or part thereof for such quarter will be extinguished.

Redemption

The Series B Preferred Shares will not be redeemable by Industrial Alliance prior to March 31, 2011. On and after March 31, 2011, and subject to the provisions described below under "Restrictions on Dividends and Retirement of Shares", Industrial Alliance may redeem at any time all or from time to time any part of the outstanding Series B Preferred Shares, at Industrial Alliance's option, by the payment of a Redemption Price for each Series B Preferred Share of \$26.00 if redeemed during the 12 months commencing March 31, 2011, \$25.75 if redeemed during the 12 months commencing March 31, 2012, \$25.50 if redeemed during the 12 months commencing March 31, 2013, \$25.25 if redeemed during the 12 months commencing March 31, 2014, and \$25.00 if redeemed on or after March 31, 2015, together in each case with an amount equal to the sum of (i) all declared and unpaid dividends in respect of completed quarters preceding the date fixed for redemption (or conversion or purchase, as applicable); and (ii) an amount equal to the cash dividend in respect of the quarter in which the redemption (or conversion or purchase, as applicable) occurs, whether declared or not, pro rated to such date.

Industrial Alliance will give notice of any redemption to registered holders not more than 60 days and not less than 30 days prior to the date fixed for redemption. Where only a part of the then outstanding Series B Preferred Shares is at any time to be redeemed, the Series B Preferred Shares are to be redeemed on a *pro rata* basis, disregarding fractions, or in any other equitable manner as determined by the Board of Directors of Industrial Alliance, subject to obtaining any required regulatory approval.

It is Industrial Alliance's current intention to fund any cash redemption in full of the Series B Preferred Shares by issuing securities that will have capital elements of equal or higher quality than the Series B Preferred Shares and qualify as Tier 1 capital under the then current capital adequacy guidelines established by the AMF within six months of the date of redemption.

All redemptions of the Series B Preferred Shares are subject to the provisions of the Insurance Act and the consent of the AMF.

Conversion into a New Series of Preferred Shares

Industrial Alliance may, at any time by resolution of the Board of Directors of Industrial Alliance, constitute a separate series of Class A Preferred Shares ("New Preferred Shares") having rights, privileges, restrictions and conditions attaching to them (other than any option or right to convert into Common Shares) which would qualify such New Preferred Shares as Tier 1 capital of Industrial Alliance under the then current capital adequacy guidelines established by the AMF. In such event, Industrial Alliance may, subject to the provisions of the Insurance Act including any necessary prior consent of the AMF, give registered holders of the Series B Preferred Shares notice that they have the right, pursuant to the terms of the Series B Preferred Shares, at their option, to convert their Series B Preferred Shares on the date specified in the notice into fully-paid and non-assessable New Preferred Shares on a share-for-share basis. Industrial Alliance will give notice of any option to convert to registered holders not more than 60 days and not less than 30 days prior to the conversion date. Industrial Alliance will ensure that such New Preferred Shares will not, if issued, be or be deemed to be "short-term preferred shares" within the meaning of the Tax Act.

Purchase for Cancellation

Subject to the provisions of the Insurance Act, the prior consent of the AMF and the provisions described below under "Restrictions on Dividends and Retirement of Shares", Industrial Alliance may at any time purchase for cancellation all or from time to time any Series B Preferred Share outstanding in the open market or by private contract or tender, at any price.

Priority

The Series B Preferred Shares will rank on a parity with every other series of the Class A Preferred Shares and the Preferred Shares (as defined in the Prospectus) of Industrial Alliance as to the payment of dividends and return of capital. The Series B Preferred Shares shall be entitled to a preference over the Common Shares and any other shares of Industrial Alliance ranking junior to the Series B Preferred Shares with respect to priority as to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of Industrial Alliance, whether voluntary or involuntary, or any other distribution of the assets of Industrial Alliance among its participating policyholders and shareholders for the specific purpose of winding-up its affairs.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of Industrial Alliance, whether voluntary or involuntary, or any other distribution of assets of Industrial Alliance for the purpose of winding-up its affairs, the holders of the Series B Preferred Shares will be entitled to receive \$25.00 per share, together with all declared and unpaid dividends to the date of payment, before any amounts are paid or any assets of Industrial Alliance are distributed to the holders of any shares ranking junior to the Series B Preferred Shares. After payment of those amounts, the holders of Series B Preferred Shares will not be entitled to share in any further distribution of the property or assets of Industrial Alliance.

Restrictions on Dividends and Retirement of Shares

As long as any Series B Preferred Shares are outstanding, Industrial Alliance will not, without the approval of the holders of the Series B Preferred Shares:

- (a) declare any dividends on its Common Shares or any other shares ranking junior to the Series B Preferred Shares (other than stock dividends in any shares ranking junior to the Series B Preferred Shares);
- (b) redeem, purchase or otherwise retire any Common Shares or any other shares ranking junior to the Series B Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Series B Preferred Shares);
- (c) redeem, purchase or otherwise retire less than all the Series B Preferred Shares; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provision attaching to any series of Class A Preferred Shares or other preferred shares of Industrial Alliance issuable in series, redeem, purchase, or otherwise retire any other shares ranking on a parity with the Series B Preferred Shares;

unless, in each case, all dividends on the Series B Preferred Shares up to and including those payable on the dividend payment date for the last completed period for which dividends are payable and in respect of which the rights of holders to such dividends have not been extinguished, and all dividends then accrued on all other shares ranking senior to or on a parity with the Series B Preferred Shares up to the immediately preceding respective date or dates for payment and in respect of which the rights of holders of those shares have not been extinguished, have been declared and paid or set apart for payment.

If the Company does not pay a dividend on the Series B Preferred Shares in respect of a particular period, then the right to that dividend will be extinguished. In addition, the Company is prohibited from paying dividends on its preferred shares in certain other circumstances. See “Risk Factors”.

Issue of Additional Series of Class A Preferred Shares

Industrial Alliance may issue other series of Class A Preferred Shares ranking on a parity with the Series B Preferred Shares or may issue shares of any other class or series without the approval of the holders of the Series B Preferred Shares. The Series B Preferred Shares rank equally with Non-Cumulative Class A Preferred Shares Series A.

Amendments to the Series B Preferred Shares

Industrial Alliance will not without, but may from time to time with, the approval of the holders of the Series B Preferred Shares given as specified under “Shareholder Approval” below and any other necessary approval, delete, add to or vary any rights, privileges, restrictions or conditions attaching to the Series B Preferred Shares. In addition, Industrial Alliance will not without, but may from time to time with, any necessary consent of the AMF, make any such deletion, addition or variation which might affect the classification afforded the Series B Preferred Shares from time to time for capital adequacy requirements pursuant to the Insurance Act.

Shareholder Approval

The approval of holders of the Series B Preferred Shares to change or remove any right, privilege, restriction or condition attaching to the Series B Preferred Shares as a series or in respect of any other matter requiring the consent of the holders of the Series B Preferred Shares may be given in such manner as may then be required by law, subject to the requirement that such approval be given by resolution passed by the affirmative vote of at least two-thirds (2/3) of the votes cast at a meeting of the holders of the Series B Preferred Shares duly called for that purpose at which the holders of at least one-fourth (1/4) of the outstanding Series B Preferred Shares are present in person or represented by proxy. If at any such meeting, the holders of at least one-fourth (1/4) of the outstanding Series B Preferred Shares are not present in person or represented by proxy within 30 minutes after the time appointed for the meeting, then the meeting will be adjourned to such date not less than 15 days thereafter and to such time and place as may be appointed by the chairman of the meeting. A notice of not less than seven days will be given of the adjourned meeting. At such adjourned meeting, the holders of the Series B Preferred Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by not less than two-thirds (2/3) of the votes cast constitutes the approval of the holders of the Series B Preferred Shares referred to above.

The formalities to be observed with respect to the giving of notice of any such meeting or any adjourned meeting and the conduct thereof are those from time to time prescribed by the by-laws of Industrial Alliance or the resolutions passed by the Board of Directors with respect to meetings of shareholders or as required by law. On every poll taken at every meeting of the holders of the Series B Preferred Shares as a series, or at any joint meeting

of the holders of two or more series of Class A Preferred Shares, each holder of Series B Preferred Shares entitled to vote thereat has one vote in respect of each Series B Preferred Share held.

Voting Rights

Subject to applicable law, the holders of the Series B Preferred Shares will not be entitled to receive notice of, or to attend or to vote at, any meeting of the shareholders or participating policyholders of Industrial Alliance unless and until the first time at which the rights of such holders to any undeclared dividends have become extinguished as described under “Dividends” above. In that event, the holders of the Series B Preferred Shares will be entitled to receive notice of, and to attend, only meetings of shareholders at which directors are to be elected and will be entitled to one vote for each Series B Preferred Share held in the election of directors only but not in respect of any other business. The voting rights of the holders of the Series B Preferred Shares will forthwith cease upon payment by Industrial Alliance of the first quarterly dividend on the Series B Preferred Shares to which the holders are entitled subsequent to the time such voting rights first arose. At such time as the rights of such holders to any undeclared dividends on the Series B Preferred Shares have again become extinguished, such voting rights will become effective again and so on from time to time.

Tax Election

The Series B Preferred Shares are “taxable preferred shares” as defined in the Tax Act. The terms of the Series B Preferred Shares require Industrial Alliance to make the necessary election under Part VI.1 of the Tax Act so that corporate holders will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Series B Preferred Shares. See “Canadian Federal Income Tax Considerations — Dividends”.

DEPOSITORY SERVICES

Except as otherwise provided below, the Series B Preferred Shares will be issued in “book-entry only” form and must be purchased or transferred through CDS participants (the “Participants”) in the depository service of CDS or its nominee, which include securities brokers and dealers, banks and trust companies. On the date of closing, Industrial Alliance will cause a global certificate representing the Series B Preferred Shares to be delivered to, and registered in the name of, CDS or its nominee. Except as described below, no purchaser of a Series B Preferred Share will be entitled to a certificate or other instrument from Industrial Alliance or CDS evidencing that purchaser’s ownership, and no purchaser will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of that purchaser. Each purchaser of a Series B Preferred Share will receive a customer confirmation of purchase from the registered dealer from which the Series B Preferred Share is purchased in accordance with the practices and procedures of that registered dealer. Practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the Series B Preferred Shares. Physical certificates evidencing the Series B Preferred Shares will not be issued to purchasers, and registration will be made in the depository service of CDS.

Series B Preferred Shares will be issued in fully registered form to holders or their nominees other than CDS or its nominee if (i) Industrial Alliance determines that CDS is no longer willing or able to discharge properly its responsibilities as depository and Industrial Alliance is unable to locate a qualified successor, (ii) Industrial Alliance at its option elects, or is required by law, to terminate the book-entry system through CDS, or (iii) the book-entry system ceases to exist.

Neither Industrial Alliance nor the Underwriters assume any liability for any action or omission on the part of CDS and/or the Participants in relation to the book-entry system, including (i) any aspect of the records relating to the beneficial ownership of the Series B Preferred Shares held by CDS or the payments relating thereto, (ii) maintaining, supervising or reviewing any records relating to the Series B Preferred Shares or (iii) any advice or representation made by or with respect to CDS and contained in the Prospectus and this prospectus supplement and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series B Preferred Shares must look solely to Participants for payments made by or on behalf of Industrial Alliance to CDS.

As indirect holders of Series B Preferred Shares, investors should be aware that (subject to certain exceptions) they (i) may not have Series B Preferred Shares registered in their name, (ii) may not have physical certificates representing their interest in the Series B Preferred Shares, (iii) may not be able to sell the Series B Preferred Shares

to institutions required by law to hold physical certificates for securities that they own and (iv) may be unable to pledge Series B Preferred Shares as security.

Manner of Effecting Transfer, Redemption or Conversion

A transfer, redemption or conversion of Series B Preferred Shares will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Purchasers of Series B Preferred Shares who are not Participants, but who wish to convert, purchase, sell or otherwise transfer ownership of or other interests in Series B Preferred Shares, may do so only through Participants.

The ability of a purchaser to pledge or to hypothecate Series B Preferred Shares and otherwise take action with respect to such purchaser's interest in Series B Preferred Shares (other than through a Participant) may be limited due to the absence of a physical certificate. See "Insurance Act Restrictions".

Payment of Dividends and Other Amounts

Payments of dividends and other amounts in respect of the Series B Preferred Shares will be made by Industrial Alliance to CDS or its nominee, as the case may be, as registered holder of the Series B Preferred Shares. As long as CDS or its nominee is the registered holder of the Series B Preferred Shares, CDS or its nominee, as the case may be, will be considered the sole owner of the Series B Preferred Shares for the purposes of receiving payments on the Series B Preferred Shares.

Industrial Alliance expects that CDS or its nominee, upon the date of receipt of any payment in respect of the Series B Preferred Shares, will credit the Participants' accounts with payments in amounts proportionate to their respective beneficial interests in Series B Preferred Shares shown on the records of CDS or its nominee. Industrial Alliance also expects that payments by the Participants to the owners of beneficial interests in Series B Preferred Shares will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of Participants. The responsibility and liability of Industrial Alliance in respect of the Series B Preferred Shares issued in book-entry form is limited to making payment of any amount due on such Series B Preferred Shares to CDS or its nominee.

Notices

Any notice required to be given to any persons, other than Participants, having an interest in the Series B Preferred Shares will be given to CDS.

INSURANCE ACT RESTRICTIONS

The Insurance Act and *An Act respecting Industrial Alliance, Life Insurance Company* (Québec) contain restrictions on the acquisition, issue, transfer and voting of voting shares of Industrial Alliance. Pursuant to these restrictions, no person is permitted to acquire, directly or indirectly, any voting shares of Industrial Alliance (including Common Shares), if the acquisition would cause the person and his associates, within the meaning of Section 49 of the Insurance Act, to hold 10% or more of the voting rights attached to the shares of Industrial Alliance. In addition, Industrial Alliance is not permitted to record any transfer or issue of voting shares of Industrial Alliance (including Common Shares) if the transfer or issue would cause the person and his associates, within the meaning of Section 49 of the Insurance Act, to hold 10% or more of the voting rights attached to the shares of Industrial Alliance. No person who holds 10% or more of the voting rights attaching to the shares of Industrial Alliance together with its associates may exercise any voting rights attached to the shares held by such person.

USE OF PROCEEDS

The estimated net proceeds to Industrial Alliance from the sale of the Series B Preferred Shares offered by this prospectus supplement, after deducting the Underwriters' fee and assuming that no Series B Preferred Shares are sold to certain institutions, will amount to \$121,250,000, will be added to its general funds and will be used for general corporate purposes. This issue will increase Industrial Alliance's Tier 1 capital base and will replenish its cash position as a result of the cash outlay used in the Clarington acquisition. All expenses relating to the offering of the Series B Preferred Shares, including the fee paid to the Underwriters, will be paid out of Industrial Alliance's general funds.

RATINGS

The Series B Preferred Shares are provisionally rated “Pfd-2 (high)n” with a Stable trend by Dominion Bond Rating Service Limited (“DBRS”). “Pfd-2” is the second highest of five categories granted by DBRS for preferred shares. A reference to “high” or “low” reflects the relative strength within the rating category. The reference to “n” signifies that the preferred shares are non-cumulative. Ratings may be placed “Under Review” by DBRS if there is a high uncertainty regarding the outcome of a significant event or for any other reason that brings DBRS to the conclusion that the present rating may no longer be appropriate. A rating outlook, expressed as positive, stable or negative, provides an opinion regarding the likely direction of any medium-term rating actions.

The Series B Preferred Shares are provisionally rated “P-2 (High)” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) using the S&P Canadian scale for preferred shares and “BBB+” using S&P’s global scale for preferred shares. The “P-2” rating is the second highest of the five categories used by S&P on its Canadian preferred share scale. A reference to “high” or “low” reflects the relative strength within the rating category. The “BBB+” rating is immediately next to the highest range used by S&P on its global scale.

Credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities. The credit ratings accorded to securities by the rating agencies are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant, and if any such rating is so revised or withdrawn, Industrial Alliance is under no obligation to update this prospectus supplement. Prospective purchasers of Series B Preferred Shares should consult the relevant rating organization with respect to the interpretation and implications of the foregoing provisional ratings.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated February 13, 2006 (the “Underwriting Agreement”) between Industrial Alliance and the Underwriters, Industrial Alliance has agreed to sell and the Underwriters have agreed to purchase jointly (but not solidarily), as principals, on February 24, 2006, or such other date as may be agreed upon, but not later than March 7, 2006, subject to the terms and conditions stated therein, all but not less than all of the Series B Preferred Shares at a price of \$25.00 per share, payable in cash to Industrial Alliance against delivery of such Series B Preferred Shares. The Underwriting Agreement provides that the Underwriters will be paid a fee per share equal to \$0.25 with respect to the Series B Preferred Shares sold to certain institutions and \$0.75 with respect to all other Series B Preferred Shares sold.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series B Preferred Shares if any are purchased under the Underwriting Agreement.

The Underwriters propose to offer the Series B Preferred Shares initially at the offering price of \$25.00. After the Underwriters have made a reasonable effort to sell all of the Series B Preferred Shares at that price, the offering price may be decreased and may be further changed from time to time to an amount not greater than \$25.00, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Series B Preferred Shares is less than the price paid by the Underwriters to Industrial Alliance.

Pursuant to policy statements of the Ontario Securities Commission and the AMF, the Underwriters may not, throughout the period of distribution under this prospectus supplement, bid for or purchase Series B Preferred Shares. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by Market Regulation Services Inc. relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer when the order was not solicited during the period of distribution.

In connection with this offering and subject to the foregoing and to applicable law, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Series B Preferred Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The TSX has conditionally approved the listing of the Series B Preferred Shares. Listing is subject to Industrial Alliance fulfilling all of the requirements of the TSX on or before May 9, 2006.

Industrial Alliance Securities Inc., one of the Underwriters, is a wholly-owned subsidiary of Industrial Alliance. Industrial Alliance is a “related” issuer of Industrial Alliance Securities Inc. under applicable securities legislation by virtue of Industrial Alliance’s interest in Industrial Alliance Securities Inc. The terms of the offering were negotiated at arm’s length among Industrial Alliance and the Underwriters. Industrial Alliance Securities Inc. will not receive any benefit in connection with the offering other than as described herein. Scotia Capital Inc., an Underwriter in respect of which Industrial Alliance is not a related or connected issuer, has participated in the structuring and pricing of the offering and in the due diligence activities performed by the Underwriters for the offering.

The decision to distribute the Series B Preferred Shares and the determination of the terms of this offering were made through negotiations between Industrial Alliance and the Underwriters.

EARNINGS COVERAGE RATIOS

Industrial Alliance’s pro forma dividend requirements on its outstanding Class A Preferred Shares, after giving effect to the issue of the Series B Preferred Shares to be distributed under this prospectus supplement, and adjusted to a before-tax equivalent using an effective income tax rate of 32.8% and 30.6%, respectively, amounted to \$8,600,000 for the 12 months ended December 31, 2004 and \$8,300,000 for the 12 months ended September 30, 2005. Industrial Alliance’s interest requirements on the existing senior and subordinated long-term indebtedness of Industrial Alliance for the 12 months ended December 31, 2004 amounted to \$18,300,000 and for the 12 months ended September 30, 2005, amounted to \$18,600,000. Industrial Alliance’s earnings before interest and income tax for the 12 months ended December 31, 2004 were \$256,000,000, which is 9.5 times Industrial Alliance’s aggregate dividend and interest requirements for this period, and for the 12 months ended September 30, 2005 were \$203,100,000, which is 7.6 times Industrial Alliance’s aggregate dividend and interest requirements for this period.

Updated earnings coverage ratios as required will be filed quarterly with the applicable securities regulatory authorities, either as prospectus supplements or as exhibits to Industrial Alliance’s unaudited interim and audited annual consolidated financial statements.

CONSOLIDATED CAPITAL AND INDEBTEDNESS

Certain selected interim financial data set forth below have been derived from the Company’s interim consolidated financial statements for the nine months ended September 30, 2005. The following table shows the share capital and consolidated indebtedness of Industrial Alliance as of September 30, 2005.

	September 30, 2005	September 30, 2005
	(\$ millions)	As adjusted for the Series B Preferred Shares
		(\$ millions)
Direct Unsecured 5.13% Subordinated Debentures due June 30, 2019 (the “Debentures”) ⁽¹⁾	\$ 150.0	\$ 150.0
Subordinated Debentures – Series A ⁽²⁾	150.0	150.0
Subordinated Debentures – Series A Financing Debenture ⁽²⁾	10.1	10.1
Participating Policyholders’ Account	19.0	19.0
Class A Preferred Shares Series B (this offering)	-	125.0
Shareholders’ Equity	<u>1,277.6</u>	<u>1,277.6</u>
Total Capital and Indebtedness	<u>\$ 1,606.7</u>	<u>\$ 1,731.7</u>

(1) The Debentures were issued on March 11, 2004 under a prospectus supplement dated March 5, 2004.

(2) Further to the application of Accounting Guideline 15 of the CICA Handbook, the Company ceased to consolidate the Industrial Alliance Trust Securities – Series A (the “IATS – Series A”) in the first quarter of 2005. Following this change, the \$150.0 in IATS – Series A as well as a \$10.1 in Industrial Alliance Capital Trust financing debenture were reclassified as subordinated debentures in Industrial Alliance’s capital structure.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Desjardins Ducharme, L.L.P., counsel to Industrial Alliance, and Fasken Martineau DuMoulin LLP, counsel to the Underwriters, the following is, at the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Series B Preferred Shares who

acquires Series B Preferred Shares pursuant to this prospectus supplement (a “Holder”) and who, at all relevant times, for purposes of the Tax Act, is resident in Canada, holds the Series B Preferred Shares as capital property, deals with Industrial Alliance at arm’s length and is not affiliated with Industrial Alliance. Generally, the Series B Preferred Shares will be considered capital property to a Holder provided that the Holder does not hold the Series B Preferred Shares in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Holders who are resident in Canada whose Series B Preferred Shares might not otherwise qualify as capital property may be entitled to obtain such qualification in certain circumstances by making an irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a Holder that is a “financial institution” (as defined in the Tax Act for purposes of the mark-to-market rules) or a Holder an interest in which is a “tax shelter investment” (as defined in the Tax Act). Such Holders should consult their own tax advisors having regard to their particular circumstances.

This summary is based upon the facts set out in the Prospectus and this prospectus supplement, the current provisions of the Tax Act and the Regulations in force at the date of this prospectus supplement, all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel’s understanding of the current published administrative policies and assessment practices of the Canada Revenue Agency (the “CRA”). There can be no assurance that the proposed amendments will be implemented in their current form or at all. This summary does not otherwise take into account or anticipate any changes of law or practice, whether by judicial, governmental or legislative decision or action or changes in the administrative policies or assessment practices of the CRA, nor does it take into account tax legislation or considerations of any province or foreign jurisdiction. The provisions of provincial income tax legislation vary from province to province in Canada and in some cases differ from federal income tax legislation.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any particular Holder are made. Accordingly, prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring, holding and disposing of Series B Preferred Shares, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

Dividends

Dividends (including deemed dividends) received on the Series B Preferred Shares by an individual (other than certain trusts) will be included in the individual’s income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations. On November 23, 2005, the Minister of Finance (Canada) tabled in the House of Commons a Notice of Ways and Means Motion to introduce an enhanced federal gross-up and dividend tax credit for eligible dividends paid after 2005 and received by individuals resident in Canada. Pursuant to the Notice of Ways and Means Motion, eligible dividends will generally include dividends paid by public corporations (and other corporations that are not Canadian-controlled private corporations) that are resident in Canada and subject to the general corporate income tax rate. For federal income tax purposes, an eligible dividend will be grossed-up by 45% and the dividend tax credit in respect of eligible dividends will be 19%. Parliament was dissolved before draft legislation was released. If legislation is enacted as described in the Notice of Ways and Means Motion, dividends received on the Series B Preferred Shares should qualify for the enhanced gross-up and dividend tax credit.

The Series B Preferred Shares will be “taxable preferred shares” (as defined in the Tax Act). The terms of the Series B Preferred Shares require Industrial Alliance to make the necessary election under Part VI.1 of the Tax Act so that Holders that are corporations will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) by such Holders on the Series B Preferred Shares.

Dividends (including deemed dividends) on the Series B Preferred Shares received by a corporation other than a “specified financial institution” (as defined in the Tax Act) will be included in computing the corporation’s income and will normally be deductible in computing the taxable income of the corporation. Where the investor is a specified financial institution, such dividends will be deductible only if the Series B Preferred Shares are not “term preferred shares” (as defined in the Tax Act) or, if term preferred shares, such shares were not acquired by the specified financial institution in the ordinary course of the business carried on by it. A Series B Preferred Share will not be a term preferred share to a specified financial institution where such share is listed on a prescribed stock exchange in Canada and the specified financial institution, alone or together with persons with whom it does not deal

at arm's length within the meaning of the Tax Act, does not receive (and is not deemed to receive) dividends in respect of more than 10% of the issued and outstanding Series B Preferred Shares.

Investors that are specified financial institutions and who alone, or together with non-arm's length persons, will receive or be deemed to receive dividends in respect of more than 10% of the issued and outstanding Series B Preferred Shares should consult their own tax advisors about whether the Series B Preferred Shares will be considered to be term preferred shares.

A "private corporation" (as defined in the Tax Act), or any other corporation controlled whether by reason of a beneficial interest in one or more trusts or otherwise by or for the benefit of an individual or a related group of individuals, will generally be liable to pay a 33¹/₃% refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Series B Preferred Shares to the extent such dividends are deductible in computing its taxable income.

Dispositions

A Holder who disposes of or is deemed to dispose of Series B Preferred Shares (either on redemption of the shares for cash or otherwise, but not on conversion) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the Holder (initially determined on the basis of the price for each acquired Series B Preferred Share paid by such Holder, being \$25.00 per Series B Preferred Share or the decreased price per Series B Preferred Share as contemplated under the heading "Plan of Distribution"). The amount of any deemed dividend arising on the redemption or purchase for cancellation by Industrial Alliance of Series B Preferred Shares will not be included in computing the Holder's proceeds of disposition to any shareholder for purposes of computing the capital gain or capital loss arising on the disposition of the Series B Preferred Shares. See "Redemption" below.

Generally, one-half of any such capital gain will be included in computing the Holder's income as a taxable capital gain and one-half of any such capital loss may be deducted from the Holder's taxable capital gains in accordance with the rules contained in the Tax Act. Any such capital loss may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares. Capital gains realized by an individual may give rise to a liability for minimum tax.

A "Canadian-controlled private corporation" as defined in the Tax Act may be subject to an additional refundable tax of 6²/₃% on investment income, including taxable capital gains.

Redemption

If Industrial Alliance redeems Series B Preferred Shares for cash or otherwise acquires Series B Preferred Shares other than by a purchase made in the manner in which shares are normally purchased by a member of the public in the open market, the Holder will be deemed to have received a dividend equal to the amount, if any, paid by Industrial Alliance in excess of the paid-up capital of such shares at such time. Generally, the difference between the amount paid and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such shares. See "Dispositions" above. In the case of a Holder that is a corporation, it is possible that in certain circumstances all or part of the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend.

Conversion

The conversion of the Series B Preferred Shares into New Preferred Shares will be deemed not to be a disposition of property and accordingly will not give rise to any capital gain or capital loss. The cost to a Holder of New Preferred Shares received on the conversion will be deemed to be equal to the Holder's adjusted cost base of the Series B Preferred Shares immediately before the conversion.

RISK FACTORS

An investment in Series B Preferred Shares is subject to certain risks including those risks inherent in conducting the business of a diversified financial institution. Before deciding whether to invest in the Series B Preferred Shares, investors should consider carefully the risks set out in the Prospectus and the following.

General Risks

The value of the Series B Preferred Shares will be affected by the general creditworthiness of Industrial Alliance. Prospective purchasers should consider the categories of risks identified and discussed in other filings Industrial Alliance makes with securities or insurance regulators including, without limitation, the section entitled “Management’s Discussion and Analysis of Results of Operations and Financial Position”, including the section entitled “Risk Management”, contained in the Annual Report, which sections are incorporated by reference in the Prospectus. These analyses discuss, among other things, certain known material trends and events, and risks or uncertainties that have had a material effect on, and may reasonably be expected to have a material effect on, Industrial Alliance’s operations, objectives, strategies, financial situation and performance, including legislative or regulatory developments, competition, technological changes, global capital market activity, interest rates, changes in demographic data and general economic conditions in Canada and elsewhere in the world. See also the discussion under “Earnings Coverage Ratios” which is relevant to an assessment of the risk that Industrial Alliance will be unable to pay dividends on the Series B Preferred Shares.

Credit Ratings

Real or anticipated changes in credit ratings on the Series B Preferred Shares may affect the market value of the Series B Preferred Shares. In addition, real or anticipated changes in credit ratings can affect the cost at which Industrial Alliance can transact or obtain funding, and thereby affect Industrial Alliance’s liquidity, business, financial condition or results of operations.

Non-Cumulative Dividends

The dividends on the Series B Preferred Shares are non-cumulative and payable at the discretion of the Board of Directors of Industrial Alliance. See “Details of the Offering” and “Earnings Coverage Ratios”, which are relevant to an assessment of the risk that Industrial Alliance will be unable to pay dividends on the Series B Preferred Shares.

Additional Restrictions on Declaration of Dividends

Pursuant to an agreement entered into between Industrial Alliance, Industrial Alliance Capital Trust (the “Trust”), a subsidiary of Industrial Alliance, and Computershare Trust Company of Canada, as trustee for the holders of the Industrial Alliance Trust Securities — Series A (the “IATS – Series A”), Industrial Alliance has agreed, for the benefit of holders of IATS – Series A, that if the Trust fails on any last day of June or December of each year to pay the non-cumulative fixed cash distribution (the “Indicated Yield”) on the IATS – Series A in full, Industrial Alliance will not pay dividends on its Dividend Restricted Shares until the 12th month following the Trust’s failure to pay the Indicated Yield in full on the IATS - Series A, unless the Trust first pays such Indicated Yield (or the unpaid portion thereof) to the holders of the IATS - Series A. “Dividend Restricted Shares” means the Public Preferred Shares, the Common Shares and the preferred shares of Industrial Alliance, which includes the Series B Preferred Shares. “Public Preferred Shares” means preferred shares of Industrial Alliance which (i) have been issued to the public (excluding any preferred shares of Industrial Alliance held beneficially by affiliates of Industrial Alliance), (ii) are listed on a recognized stock exchange, and (iii) have an aggregate liquidation entitlement of at least \$75 million. Industrial Alliance currently has no outstanding Public Preferred Shares.

Rank

The Series B Preferred Shares are equity capital of Industrial Alliance which rank equally with other Class A Preferred Shares of Industrial Alliance in the event of an insolvency or winding-up of Industrial Alliance. If Industrial Alliance becomes insolvent or is wound-up, Industrial Alliance’s assets must be used to pay policyholders or creditors before payments may be made on Series B Preferred Shares and other preferred shares.

Prevailing yields on similar securities will affect the market value of Series B Preferred Shares. Assuming all other factors remain unchanged, the market value of the Series B Preferred Shares will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline.

The redemption and conversion of the Series B Preferred Shares is subject to the consent of the AMF and other restrictions contained in the Insurance Act. See “Insurance Act Restrictions”.

Market Value Fluctuation

Stock market volatility may affect the market price of the Series B Preferred Shares for reasons unrelated to Industrial Alliance’s performance.

There can be no assurance that an active trading market will develop for the Series B Preferred Shares after the offering, or if developed, that such a market will be sustained at the offering price of the Series B Preferred Shares.

Competition

The insurance and savings products market in Canada is highly competitive. The products and services offered by Industrial Alliance not only directly compete with those of other insurers operating in Canada, but also, in certain cases, with those of banks, trust companies, mutual funds and other financial institutions.

Competition for financial products and services offered, their pricing and their distribution methods will remain intense. Moreover, to the extent where the consolidation in the insurance industry could result in a reduction of operating charges of certain companies, other companies will have to adapt in order to avoid being adversely affected.

Subsidiaries

Under the regulations, Industrial Alliance and its subsidiaries must comply with a large number of credit and capitalization criteria. In Canada, Industrial Alliance and its subsidiaries are subject to statutory restrictions with regard to the ability to declare and pay dividends. The legislation prohibits the declaration or payment of dividends on the shares of an insurance company if there are reasonable grounds to believe that, in doing so, the insurance company infringes or will infringe the prescribed minimum solvency level. As a consequence, Industrial Alliance may not have access to certain cash held by its subsidiaries.

Integration of Clarington

As previously described under “Recent Developments”, Industrial Alliance recently acquired all the common shares of Clarington pursuant to a take-over bid. The integration of the mutual fund operations of Industrial Alliance and Clarington may not be as successful as anticipated. This acquisition has been made with the expectation that its successful completion will result in increased earnings and cost savings by taking advantage of the operating and other synergies to be realized from the consolidation of the mutual fund operations of Industrial Alliance and Clarington and enhanced growth opportunities resulting from the consolidation. However, achieving the increased earnings and cost savings are dependent on a number of factors, many of which are beyond the Company’s control, and there can be no assurance that Industrial Alliance will be able to realize the full extent of the anticipated benefits of the acquisition.

AUDITORS

The auditors of Industrial Alliance are Samson Bélair/Deloitte & Touche s.e.n.c.r.l., Québec City, Québec.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada at its office in Montreal, Québec, will be the transfer agent and registrar for the Series B Preferred Shares.

LEGAL MATTERS

Legal matters in connection with the issuance of the Series B Preferred Shares will be passed upon by Desjardins Ducharme, L.L.P. on behalf of Industrial Alliance and by Fasken Martineau DuMoulin LLP on behalf of the Underwriters.

As of the date of this prospectus supplement, the partners and associates of Desjardins Ducharme, L.L.P., as a group, and Fasken Martineau DuMoulin LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding securities of Industrial Alliance.

PURCHASERS’ STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the

purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the prospectus supplement of Industrial Alliance Insurance and Financial Services Inc. ("Industrial Alliance") dated February 13, 2006, to the short form base shelf prospectus dated February 19, 2004, relating to the offering of \$125,000,000 of Non-Cumulative Class A Preferred Shares Series B of Industrial Alliance (collectively, the "Prospectus"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the Prospectus of our report to the shareholders of Industrial Alliance on the consolidated balance sheets and the consolidated statements of net assets of its segregated funds as at December 31, 2004 and 2003 and the consolidated statements of income, participating policyholders' account, contributed surplus, shareholders' retained earnings, cash flows and changes in net assets of its segregated funds for the years then ended. Our report is dated February 3, 2005.

(Signed) SAMSON BÉLAIR/DELOITTE & TOUCHE S.E.N.C.R.L.
Chartered Accountants
Québec City, Québec

February 13, 2006

CERTIFICATE OF THE UNDERWRITERS

Dated: February 13, 2006

To the best of our knowledge, information and belief, the short form base shelf prospectus of Industrial Alliance dated February 19, 2004, together with the documents incorporated in the short form base shelf prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the short form base shelf prospectus and this prospectus supplement as required by the securities laws of all the provinces of Canada. For the purpose of the Province of Québec, to the best of our knowledge, information and belief, the short form base shelf prospectus, together with the documents incorporated in the short form base shelf prospectus by reference, as supplemented by this prospectus supplement and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

SCOTIA CAPITAL INC.

by: (signed) DAVID J. SKURKA

NATIONAL BANK FINANCIAL INC.

by: (signed) PAUL ST-MICHEL

RBC DOMINION SECURITIES INC.

by: (signed) BARRY NOWOSELSKI

BMO NESBITT BURNS INC. CIBC WORLD MARKETS INC. DESJARDINS SECURITIES INC.

by: (signed) PIERRE-OLIVIER PERRAS

by: (signed) DONALD A. FOX

by: (signed) THOMAS JARMAI

INDUSTRIAL ALLIANCE SECURITIES INC.

by: (signed) GAÉTAN PLANTE

MERRILL LYNCH CANADA INC.

by: (signed) SUSAN RIMMER