C.I. Fund Management Inc. May 31, 2002 Annual Report

Dear Shareholders: Fiscal 2002

was marked by extraordinary world events, including the terrorist attacks of September 11, 2001, and the U.S. invasion of Afghanistan. Financial markets were hit by unprecedented volatility and the blows of one corporate scandal after another. Many of these controversies involved questionable accounting and a shocking lack of ethics on the part of executives at many of America's largest corporations. These developments helped to extend the bear market into its third year, making it the longest and deepest downturn in almost three decades.

William T. Holland, President and Chief Executive Officer

To say that this has been a difficult time for our industry is an understatement.

Nevertheless, CI continued to execute the strategy that has made it a success. We maintained the company's financial efficiency while improving our product lineup, service and operations. Finally, at the end of the fiscal year, we announced the acquisition of Spectrum Investments, the SunWise segregated funds, as well as the mutual and segregated funds business of Clarica Life. The acquisition closed in July.

This is an exceptional deal for CI, accomplished in an unfavourable environment. It materially boosts our assets and competitive position, while allowing us to take advantage of the synergies involved in merging these operations into CI. We will also benefit from the economies of scale that are so evident in our business. I will discuss this acquisition in more detail later, but I do want to emphasize one point: Whether it's continuous improvement of all aspects of our operations or a major strategic initiative, we are focused on creating value for shareholders – regardless of market conditions.

Certainly, our task became more difficult in fiscal 2002. Over the 12-month period ending July 31, 2002, the MSCI World Index fell 18.2%, the S&P 500 Index lost 20.9% (both in Canadian dollars) and the S&P/TSX Composite Index declined 12.7%.

The extended bear market, the collapse of former market leaders such as Nortel Networks, and the wave of corporate scandals have left investors shell-shocked, undermining their trust in the markets and wiping out their appetite for investing. Not surprisingly, the mutual fund industry's net sales of long-term funds declined by almost 8% over the fiscal year. During the year, CI posted positive net sales each month until May, when we fell into net redemptions. Still, we can be proud that CI's streak of positive monthly net sales lasted more than 12 years – a feat that is unmatched in the mutual fund industry.

Once again, market conditions demonstrated the logic of our longtime strategy of offering investors a wide choice of funds, diversified by mandate, manager and style. Although growth-oriented funds were out of favour in fiscal 2002, we had best-sellers in our top-performing value-oriented Canadian funds – the Harbour Funds, managed by Gerry Coleman, and a number of funds managed by our Signature Funds group.

These management teams received industry-wide recognition in December 2001 at the Canadian Mutual Fund Awards. Gerry Coleman was named Fund Manager of the Year and his CI Harbour Segregated Fund won the award for Best Segregated Canadian Equity Fund. Two funds managed by Eric Bushell, Chief Investment Officer of Signature Funds, also won the top awards in their categories. Signature Select Canadian Fund was named Best Canadian Equity Fund and Signature Dividend Fund was chosen Best Dividend Fund.

CANADIAN MUTUAL FUND AWARDS Winner 2001

Harbour Fund
Fund Manager of the Year

CI Harbour Segregated Fund
Best Segregated Canadian Equity Fund

Signature Select Canadian Fund
Best Canadian Equity Fund

Signature Dividend Fund
Best Dividend Fund

MORNINGSTAR

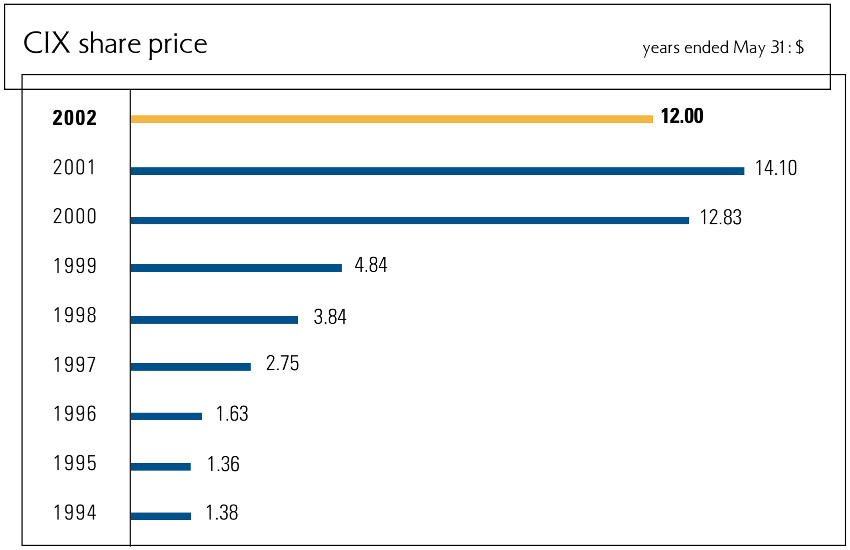
Bill Miller
Fund Manager of the Decade

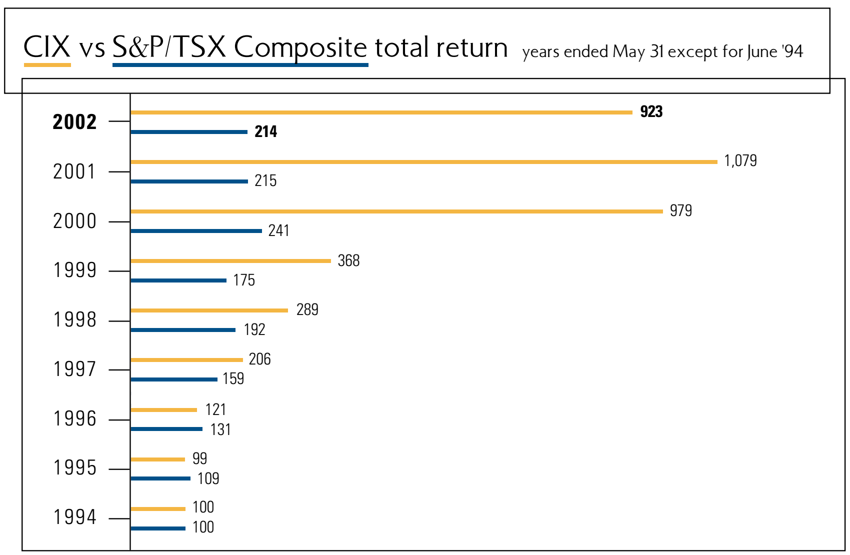
These awards are one result of our strategy of offering a wide selection of the best available portfolio managers. We remain dedicated to this approach and in August 2002, we succeeded in engaging Bill Miller as a sub-adviser. He is one of the world's best U.S. equity fund managers and Morningstar's Fund Manager of the Decade for the 1990s. As manager of the U.S.-based Legg Mason Value Trust, he has become the only equity mutual fund manager to outperform the S&P 500 for 11 straight calendar years. Mr. Miller is a household name in the United States, but he is not as well-known in Canada – creating an exciting opportunity for CI. The expertise of Mr. Miller and his team is now available through the CI Value Trust Fund.

Our emphasis on financial efficiency also served us well during the broad market decline. Our job is to focus on the factors we can control and we ensured that expenses were kept in line with lower asset levels – benefiting the unitholders in our funds as well as CI's shareholders. In fact, we cut total selling, general and administrative expenses by nearly 20%, compared with a decline of 12% in our mutual fund assets. (This includes fund operating expenses as well as corporate expenses.) It's important to note that we did this without compromising the strength of our sales and marketing team, which is one of the largest and most experienced in the industry.

CI remains financially strong and a key measure of this strength is our growing free cash flow. We are returning this increasing level of cash to shareholders through a higher dividend and the repurchasing of CI stock. That we are committed to buying back shares is without question. In fiscal 2002, CI became one of the few companies to actually repurchase the maximum number of shares allowed under a normal course issuer bid. We bought back approximately 11.9 million shares (10% of the public float at May 8, 2001). As I write this, we have completed the buyback for fiscal 2003, repurchasing about 9.7 million shares.

In addition, we have raised CI's dividend eight-fold over a year – to 32 cents a share annually effective September 2002, up from four cents a share in December 2001. CI will be generating so much free cash that, with the company having no significant debt and the share buyback completed, we decided to return the remaining cash to shareholders through dividends.

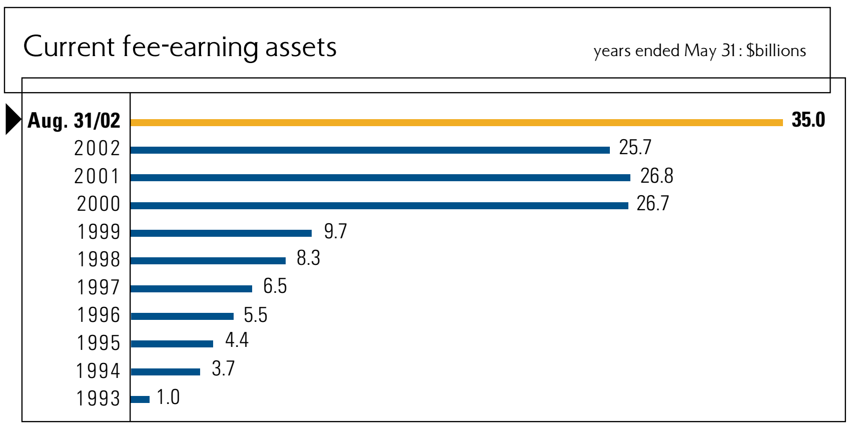




While these are very positive steps, CI's share price was not immune to the effects of the severe decline in global equity markets in fiscal 2002. CI stock ended the year at $12.00, down from $14.10 at May 31, 2001. However, as all long-term investors know, one year does not tell the whole story. From CI's initial public offering in June 1994 to May 31, 2002, CI stock has returned 823%. That's an average annual return of 32%, which makes CI the seventh-best performing company on the S&P/TSX Composite Index and the top-performing financial services stock over that time period. As a company that has always focused on shareholder value, we believe this is our most important measure.

CI also believes that its performance depends on a strong partnership of these essential elements – an entrepreneurial culture, financial prudence and good corporate governance. Over the past year, issues of corporate governance have become the subject of news headlines. We want to assure our shareholders that CI has always fostered excellent governance through a number of concrete actions. Independent directors constitute a majority on CI's board. We have a Board of Governors with the power to monitor and review the operations of our mutual funds and to report its findings to unitholders. A majority of the governors are also independent. CI also has a Corporate Code of Conduct and a detailed Code of Ethics and Conduct that requires a high standard of conduct by employees, officers and directors in their work and in their personal trading of securities. These measures serve to reinforce the principle that the interests of the unitholders of our funds and the investors in our company are paramount. Furthermore, it is vitally important that CI, as an investor in other companies, lead by example.

The expensing of employee stock options is one issue that now touches on corporate governance, even though it is an accounting matter. We believe that options are a beneficial form of compensation that do indeed align the interests of management with shareholders. However, that is not an excuse to misuse them and we have never lost sight of the reality that there is a real cost to stock options. With the introduction of a GAAP methodology to allow the recording of the expense in our financial statements, we believe they should be fully reflected as an expense and CI will be doing so for the current fiscal year (when applicable). I do want to point out that CI has always taken a sensible position on stock options. The outstanding options represent less than 5.5% of outstanding shares (at August 31, 2002) and options at CI are not concentrated in the hands of a few, but are held by a diverse group of over 100 individuals.



Finally, I would like to discuss the Spectrum/Clarica acquisition, the most significant development for CI since our purchase of BPI Financial Corporation three years ago. With this deal, CI gained $11.7 billion in mutual and segregated fund assets. In exchange, CI issued approximately 71.2 million shares worth $652 million (at the time of closing on July 25, 2002) and equivalent to a 30% interest in CI. As part of the transaction, Sun Life Financial Services of Canada Inc. received two seats on the CI board, and agreed not to increase its stake in CI above 34% for three years, subject to certain exceptions.

We believe this transaction is highly advantageous for CI and its shareholders. Its primary impact has been to boost CI's total fee-earning assets by 43% to $35.0 billion and total mutual fund assets by 48% to $28.5 billion (at August 31, 2002). This ensures our place in the top tier of the industry, as CI has become the sixth-largest mutual fund company and the fourth-largest independent (non-bank-owned). Size is clearly a critical competitive advantage in the Canadian mutual fund industry, for two key reasons.

First, brokers and planners are increasingly dealing with only a few fund companies, and they prefer larger companies that can offer them a wide range of products and a relatively high level of service and support. CI, which continues to offer the largest and most diverse choice of funds in the industry, is in an even better position to remain a top choice of advisers.

Second, larger fund companies benefit from economies of scale to gain a cost advantage. CI is the industry's low-cost provider and we are already taking advantage of synergies between CI, Spectrum and Clarica to create savings. We expect substantial cost reductions as we merge the back offices, marketing functions and other operations, and as we rationalize the combined fund lineup. On that matter, our goal is to choose the best portfolio managers within each category, while reducing costs for both CI and the unitholders in the funds.

Another key benefit of the deal is our preferred access to 4,000 Clarica representatives, the largest such sales force in Canada. CI has had great success in recent years in cultivating multiple distribution channels for our funds, and we believe that we can develop a successful and mutually beneficial relationship with the Clarica advisers. This is an excellent long-term opportunity for increased growth.

In financial terms, the transaction will have a strong, positive impact on our fiscal 2003 results. Overall, we are confident the acquisition will generate value for shareholders as a result of the advantages of our larger scale, the improvements in our financial position, the broader and very compelling selection of funds and portfolio managers, and the development of new distribution opportunities.

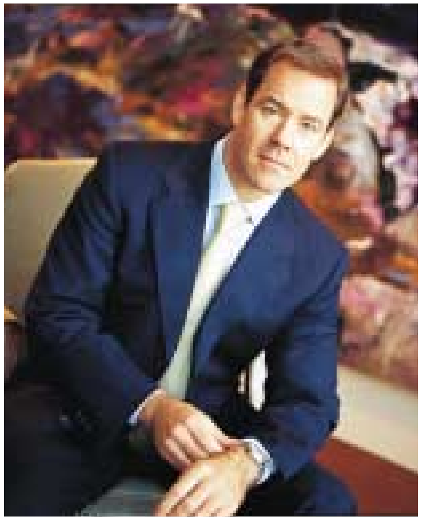
Over the past year, the fund industry has suffered from turbulent financial markets. At CI, we have not allowed these conditions to change our commitment to being one of the top fund companies in Canada. As a result of the Spectrum/Clarica acquisition and other initiatives we have pursued over the past year, CI has significantly enhanced its standing within the industry and its ability to capitalize on a turnaround in the markets. With each milestone we achieve, we continue to look ahead – and to build for the future.

Finally, we thank our shareholders for the faith they have put in CI. You have our assurances that increasing the value of your investment remains our number 1 priority.

William T. Holland
President and Chief Executive Officer

September 17, 2002

G. Raymond Chang, Chairman



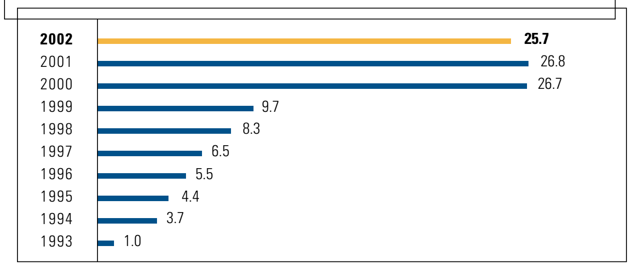
William T. Holland, President and Chief Executive Officer

Peter W. Anderson, Executive Vice-President
and President, CI Mutual Funds Inc.

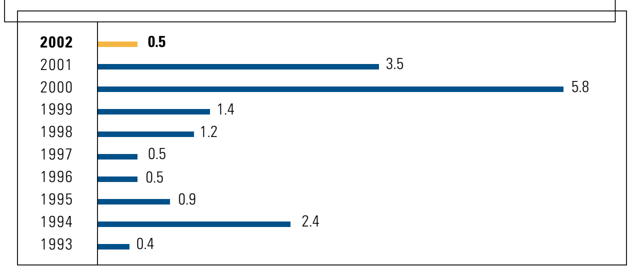
Stephen A. MacPhail, Executive Vice-President,
Chief Operating Officer and Chief Financial Officer

HISTORICAL FINANCIAL HIGHLIGHTS

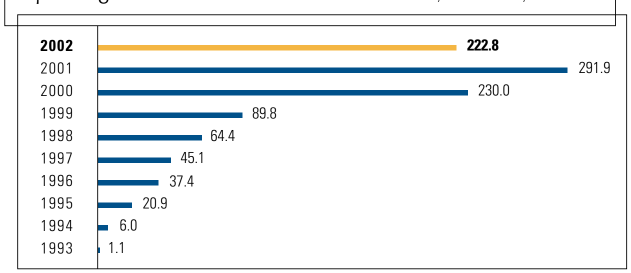
Fee-earning assets
years ended May 31 : $billions



Net sales
years ended May 31 : $billions



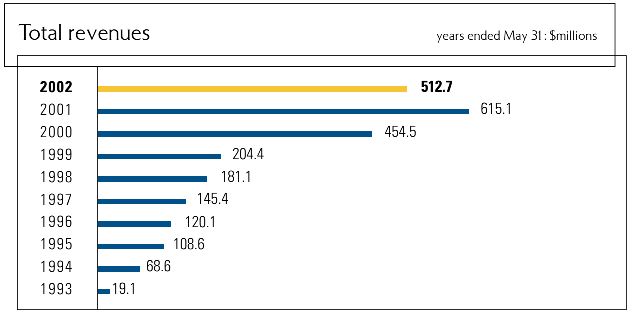
Operating cash flow
years ended May 31 : $millions

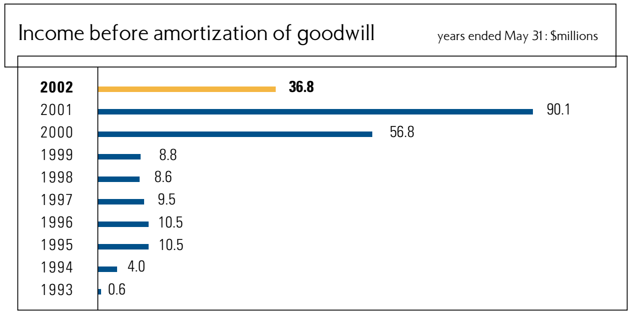


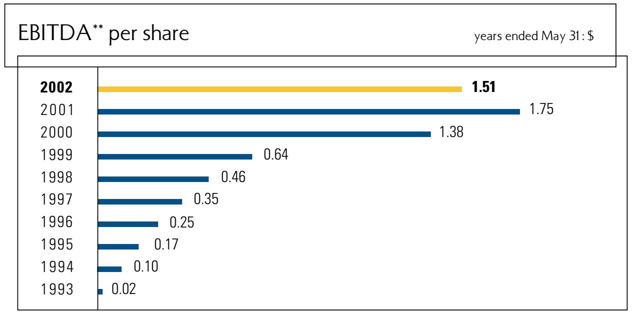
Years ended May 31, [in millions of dollars except share and per share amounts]	**2002**	2001	2000	1999
Total fee-earning assets, end of year	**25,713**	26,834	26,678	9,700
Net sales	**481**	3,468	5,843	1,369
Revenue:				
Management fees and other income	**407.0**	510.3	353.4	158.0
Redemption fees	**41.1**	28.7	22.5	14.4
Performance fees	**1.1**	2.6	21.4	—
Expenses recovered from mutual funds	**63.5**	73.5	57.2	32.0
Total revenues	**512.7**	615.1	454.5	204.4
Expenses:				
Selling, general and administrative	**80.0**	99.7	83.0	48.3
Investment adviser fees	**39.8**	41.5	29.2	18.1
Trailer fees	**97.8**	115.6	79.1	37.0
Distribution fees to limited partnerships	**10.6**	16.2	16.4	9.6
Amortization of deferred sales commissions	**201.6**	183.9	117.8	67.3
Other (including securitization and minority interest)	**24.1**	33.8	20.8	3.0
Total expenses	**453.9**	490.7	346.3	183.3
Income taxes	**22.0**	34.3	51.3	12.4
Income before amortization of goodwill	**36.8**	90.1	56.8	8.8
Net income [loss]	**(61.4)**	11.5	(2.1)	8.7
Operating cash flow	**222.8**	291.9	230.0	89.8
Earnings per share before amortization of goodwill	**0.21**	0.49	0.33	0.06
Operating cash flow per share	**1.27**	1.60	1.34	0.63
EBITDA** per share	**1.51**	1.75	1.38	0.64
Shareholders' equity, end of year	**56.8**	260.8	292.1	126.6
Shares outstanding, end of year***	**170,785,428**	180,684,728	182,829,928	144,220,460

**Does not include $286 million in sales of the closed-end DDJ Canadian High Yield Fund.*
***EBITDA (Earnings before interest, taxes, depreciation and amortization) is a non-GAAP (generally accepted accounting principles) earnings measure, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze the company's results based on this performance measure.*
****Adjusted for two-for-one stock dividends in April 1998, January 2000 and November 2000.*
†Net income from continuing operations.

1998	1997	1996	1995	1994	1993
8,302	6,516	5,469	4,394	3,733	960
1,189*	461	537	909	2,463	402
143.8	114.5	96.6	86.9	56.5	14.7
8.4	4.1	1.4	0.1	—	—
—	—	—	—	—	—
28.9	26.8	22.1	21.6	12.1	4.4
181.1	145.4	120.1	108.6	68.6	19.1
46.5	40.7	34.3	34.9	29.4	9.6
16.3	13.1	11.4	11.2	7.8	2.9
34.9	28.9	24.0	19.9	10.0	2.7
11.3	11.4	11.9	11.9	8.7	2.8
47.3	26.4	11.8	1.2	—	—
8.5	7.4	7.7	10.2	4.8	—
164.8	127.9	101.1	89.3	60.7	18.0
7.7	8.0	8.5	8.8	3.9	0.5
8.6	9.5	10.5	10.5	4.0	0.6
8.6	9.5	10.5	10.5	4.0	0.6†
64.4	45.1	37.4	20.9	6.0	1.1
0.06	0.07	0.08	0.08	0.04	0.01
0.45	0.34	0.28	0.16	0.06	0.01
0.46	0.35	0.25	0.17	0.10	0.02
140.2	55.8	50.8	43.1	6.0	1.3
147,486,888	131,139,160	131,838,104	131,882,104	107,080,000	106,440,000







OPERATING REVIEW

What is the mark of a leading company in difficult times? A leader adapts to change. A leader seeks new sources of growth. A leader exploits challenging conditions to build on its position. CI displayed these qualities in fiscal 2002. Even as the continuing bear market took its toll on the industry, CI advanced its competitive position. This was accomplished through a major strategic initiative – the acquisition of Spectrum Investments and Clarica Diversico – and through improvements to CI's competitive advantages in the key areas of its business: products, investment management, marketing and distribution, and operations.

Products

CI believes that its strongest competitive advantage is its wide choice of investment funds — the industry's broadest selection. This not only includes a wide range of mutual funds with mandates diversified by asset class, region, industry and investment approach, but an extensive choice of segregated funds and hedge funds as well. CI has also built on this lineup by offering its funds in different versions to suit different needs – such as 100% RSP-eligible global funds, Class F and Class I units – and by packaging the funds into new products such as the portfolio funds and multi-manager funds.

This industry-leading lineup allows financial advisers to meet the objectives of their clients within CI and makes it more likely that CI remains one of their favourites as they reduce the number of fund companies with which they do business. This broad range of funds also means that CI's family of funds is able to accommodate investors as their preferences change and that CI is not dependent on just one or two funds for its growth.

CI's funds reflect the company's ability to identify investors' changing needs and to quickly bring innovative products to market. In fiscal 2002, CI continued to enhance its lineup across the board, with key product launches in the following areas:

Hedge funds. CI introduced four new hedge funds in fiscal 2002, creating a comprehensive hedge fund lineup diversified by investment manager and approach. The new funds were Landmark Global Opportunities Fund, Trilogy Global Opportunities Fund, Altrinsic Opportunities Fund and CI Multi-Manager Opportunities Fund, which uses a fund-of-funds structure to invest in five other CI hedge funds. In addition, CI created RSP-eligible versions of five of its hedge funds. With these additions, CI has reinforced its leadership in this growing sector. CI remains one of Canada's largest hedge fund managers with approximately $800 million in assets in these funds (at May 31, 2002).

Class I Units. Class I Units, launched in October 2001, are the key vehicles in CI's development of business with institutional investors and high-net-worth individuals. Class I Units offer reduced management fees in more than 35 CI funds, subject to large minimum investments. Class I accounts are more efficient to service because of their

CI Products

Mutual Funds
Segregated Funds
Portfolio Series Funds
Multi-Manager Funds
Hedge Funds
100% RSP-eligible Global Funds
Class F Funds
Class I Funds

larger size, and they do not pay trailer fees. The Class I funds are designed primarily for institutions such as banks, insurance companies and mutual fund dealers that offer CI funds to their own customers, either directly or through programs such as wrap accounts. CI's participation in these programs is a result of the strength of CI's brand, which symbolizes a reputation for industry leadership and excellence in portfolio management – providing credibility and attracting customers to the third-party program. The success of the Class I units, which accounted for $524 million in assets at May 31, 2002, also reflects CI's ability to secure new business by adapting its core products to meet different needs. (For more information on CI's growing institutional business, please see the section on Marketing and Distribution.)

Portfolio Funds. During the fiscal year, CI launched the CI Portfolio Series and a similar product within its segregated fund family – the CI Guaranteed Investment Fund Portfolios. The portfolio funds invest in up to 14 underlying CI funds in combinations that vary according to the fund's target asset allocation. The CI Global Conservative Portfolio, for example, is 50% equities and 50% fixed income. However, the portfolio funds also offer additional diversification by asset class and investment style. These funds give investors many of the benefits of a wrap program – asset allocation, diversification and regular rebalancing – with the convenience of purchasing a single mutual fund. They also make it easier for financial advisers to provide the proper asset allocation to their clients. Once again, CI's broad lineup provides an advantage, making it possible for the company to develop these well-constructed portfolio funds using only CI funds.

Investment Management

The foundation that supports CI's extensive lineup of funds is a strategy of offering investors a wide choice of the best available portfolio managers across a variety of investment styles – value, growth at a reasonable price, growth, and momentum. The quality of CI's management teams is shown in their consistent prominence at the Canadian Mutual Fund Awards and in the top five-star ratings from Morningstar, a leading investment fund research firm. At August 31, 2002, CI was second in the industry with 12 five-star funds.

CI took home some of the most prestigious awards from the Canadian Mutual Fund Awards in December 2001, including Fund Manager of the Year, which went to Gerry Coleman. The award recognized his strong performance in the face of uncertain markets with the Harbour Fund and Harbour Growth & Income Fund. Mr. Coleman's fund, CI Harbour Segregated Fund, was named Best Segregated Canadian Equity Fund. CI funds also won top honours for Best Canadian Equity Fund (Signature Select Canadian Fund), and Best Dividend Fund (Signature Dividend Fund). Both of these funds are managed by Eric Bushell of CI's Signature Funds group – who was also a finalist for Fund Manager of the Year. The winners were selected by an independent panel of mutual fund analysts.

The performance of CI's managers is driven in part by a structure in which the different portfolio management teams operate independently of one another. CI believes this structure encourages excellence, discipline and focus, and it allows CI to emphasize each team's distinct investment style. The fact that several teams manage funds with their own brand, including Harbour, Landmark, Signature and BPI, adds to the distinction. Harbour Funds, for example, encompasses Canadian equity, Canadian balanced and global equity funds, but all are managed by Gerry Coleman using his proven value-oriented approach. This identification of a portfolio management group with a particular investment approach makes it easier for financial advisers and investors to understand CI's lineup and to select funds.

It also means that CI is well placed to benefit as advisers and investors become more aware of the need for "style diversification" – the view that investors' portfolios should be diversified not only by asset class, but by investment style, as different styles outperform at different times.

On the business side, the portfolio management teams' relationships with CI are organized in one of three ways:

- They are employed directly by CI Mutual Funds Inc., which is the case with the Harbour and Signature teams;
- They are partnerships in which CI holds a majority or a significant stake, and these include Altrinsic Advisors, LLC; BPI Global Asset Management LLP; CI Global Advisors LLP; and Webb Capital Management LLP.
- They are independent companies retained as sub-advisers to CI, and these include Legg Mason Funds Management, Inc.; Steinberg Priest & Sloane Capital Management, LLC; Trident Investment Management, LLC; and J. Zechner Associates Inc.

CI's use of partnerships is unique in the industry. By offering portfolio managers an equity stake in the business, CI has attracted leading managers and given them a powerful incentive to perform and to remain with CI over the long term. Furthermore, they are encouraged to build that business by seeking institutional and other assets that do not conflict with CI's funds. This model has already proven itself to be highly successful. CI's U.S. subsidiaries managed $4.3 billion in institutional assets at May 31, 2002, an increase of more than $1 billion from

CI Fund Managers

Altrinsic Advisors, LLC

BPI Global Asset Management LLP

CI Global Advisors LLP

Harbour Group

Howson Tattersall Investment Counsel Limited

J. Zechner Associates Inc.

Legg Mason Funds Management, Inc.

MFS Institutional Advisors, Inc.

Signature Group

Sionna Investment Managers Inc.*

Steinberg Priest & Sloane Capital Management, LLC

Trident Investment Management, LLC

Webb Capital Management LLP

Fidelity Investments Canada Ltd.

AIM Funds Management Inc.

Natcan Investment Management Inc.

UBS Global Asset Management (Canada) Co.

**pending regulatory approval*

a year earlier. In this way, CI and its partners have built a significant U.S. money management business in a low-cost, low-risk fashion.

CI continues to use sub-advisers who meet its criteria, with Bill Miller of Legg Mason being a notable example. Mr. Miller – named Fund Manager of the Decade by Morningstar in 1999, and the only equity mutual fund manager to have outperformed the S&P 500 Index for 11 straight calendar years – is adviser to the CI Value Trust Fund, launched in August 2002.

With the acquisition of the Spectrum and Clarica funds, CI gained another 20 sub-advisory relationships. Neither company used in-house portfolio management. CI's goal is to reduce the number of relationships while keeping the best portfolio advisers within each category. The key sub-advisers retained by CI include Kim Shannon, a highly regarded value-oriented Canadian equity manager. Ms. Shannon has an extraordinary track record, with her fund ranking in the top decile of the Canadian equity/large cap Canadian equity category for the one- to five-year periods ending August 31, 2002. She has produced these superior returns with exceptionally low volatility. Also managing portfolios for CI are Boston-based MFS Institutional Advisors, Inc., a large U.S. fund company known for its in-depth investment research, and Howson Tattersall Investment Counsel Limited, a Canadian firm with a reputation for expertise in small-cap investing.

As CI completes the rationalization of its combined roster of advisers, it will continue to offer the industry's strongest lineup and widest choice of leading portfolio management expertise.

Marketing and Distribution

By July 2002, the equity bear market was in its 28th month, and major indexes had posted losses of nearly 50% from their March 2000 peaks. This naturally affected mutual fund sales, with the industry registering net redemptions by April 2002. Year-over-year net sales were flat for the 12 months ending May 31, 2002, though net sales of long-term funds (excluding money market) fell by 8%, according to Investment Funds Institute of Canada data.

CI posted gross sales of $3.64 billion and net sales of $481 million in fiscal 2002, ranking it ninth among independent mutual fund companies. The decline from net sales of $3.47 billion a year earlier reflected the poor equity markets and the especially difficult environment for growth-oriented stocks. This affected some of CI's most popular funds from previous years, such as CI Global and BPI Global Equity, and industry funds such as CI Global Telecommunications. At the same time, there were strong sales of CI's top-performing value-oriented Canadian funds, including the Harbour Funds family and Signature Select Canadian, along with income-oriented funds such as Signature Dividend Income, Signature Dividend and Signature High Income – demonstrating the benefits of CI's diverse lineup. The Harbour Funds had net sales of $411 million in fiscal 2002, and these four Signature funds posted net sales of $319 million.

It's also important to note that while gross sales declined during the year, redemptions increased only slightly. CI's redemption rate – redemptions as a percentage of average net assets excluding money market funds – rose from 10.1% in fiscal 2001 to 11.9% in May 2002, which is still below the IFIC average of 13.1% for the period. Clearly, investor confidence has been battered by market declines and corporate scandal, and the appetite for mutual funds – especially equity funds – has diminished. A rebound in net sales for CI and the industry will depend on stable markets and a more positive outlook.

CI has not allowed market uncertainty to undermine its commitment to sales and marketing. The focus of these efforts continues to be more than 40,000 individual financial advisers across Canada who distribute CI funds. To service and support these advisers, CI maintains one of the industry's largest sales forces, backed by a highly trained client services department. CI sales representatives consistently build the one-on-one relationships that are critical to gaining support in the fund industry.

In 1997, CI adopted a strategy of increasing its penetration of the life insurance channel through additional contact with life insurance agents. This was complemented by the launch that year of the CI Segregated Funds, which made CI the first mutual fund company to offer a line up of segregated funds. CI expanded its presence in this market with the February 1999 launch of the CI Guaranteed Investment Funds, a larger lineup of segregated funds with more attractive features. CI has since expanded the CI GIF program to 27 funds, making it one of the larger segregated fund families available. At May 31, 2002, segregated funds accounted for $1.2 billion in assets.

The acquisition of the Clarica and SunWise segregated funds has boosted CI's segregated fund assets to $2.8 billion and heightened the importance of the insurance channel to CI. In particular, CI's status as a preferred supplier to more than 4,000 Clarica agents – a sales force that outnumbers any other dedicated sales force in Canada, including Investors Group representatives – presents a very attractive opportunity for growth that's not available to competitors.

CI has also been active in developing alternative distribution channels with financial institutions such as banks, insurance companies, mutual fund dealers and brokers. These clients distribute CI funds directly, include them in their own programs such as wraps or segregated funds, or re-sell them under their own name. For the past three years, CI has supported this channel with a dedicated Institutional Business Development team within CI's marketing department.

The success of these efforts speaks for itself. In each of the past two fiscal years, CI has gained another 10 institutional partners, bringing the total to over 35. Institutional clients contributed $302.4 million in net sales in fiscal 2002, and now have a total of $1.4 billion in assets in CI funds. CI intends to continue to pursue relationships with the top financial institutions in Canada as a way to expand the channels through which CI products are distributed.

Underlying all of these sales and marketing activities are initiatives to build the CI brand. The most direct of these are advertising, such as CI's successful billboard campaign, and sponsorships, which provide invaluable public exposure in connection with prominent sporting and cultural events. CI's sponsorships include the Bell Canadian Open, the most prestigious golf tournament in Canada, and the National Ballet of Canada's The Nutcracker. CI also sponsors numerous other events and charities across Canada in co-operation with financial advisers and other partners. These actions serve to build CI's brand, strengthening the company's reputation and raising its profile with distributors, investors and the public.

BELL CANADIAN OPEN

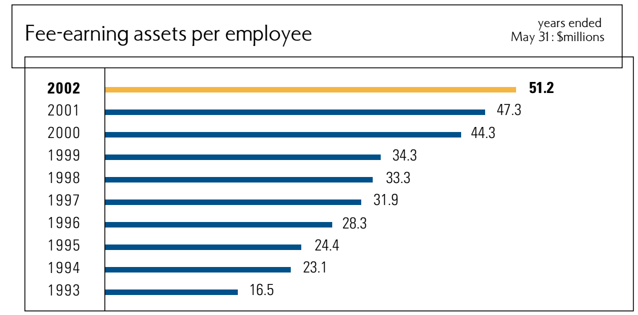
THE Nutcracker

Operations

CI is recognized as one of the most cost-efficient organizations in the industry and CI believes this is a significant competitive advantage. CI differs from other mutual fund companies in that this drive for efficiency is ingrained in CI's corporate culture. Employees at all levels share in this philosophy of financial prudence. As a result, CI has achieved that rare combination of being able to provide one of the industry's highest levels of service while also being one of its lowest-cost operators. This combination is unmatched by its competitors.

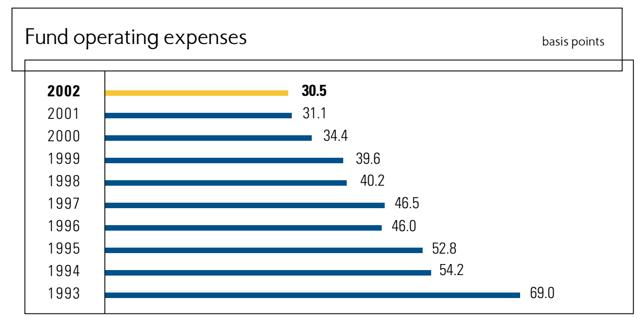
A key measure of this efficiency is that CI operates with one of the highest ratios of assets to employees in the fund industry. At May 31, 2002, CI had $51 million in fee-earning assets per employee, and at August 31, 2002, following the Spectrum/Clarica acquisition, CI had approximately $58 million in fee-earning assets per employee. CI's fund unitholders benefit from this efficiency and from the effects of economies of scale through lower fund operating expenses.

In fiscal 2002, CI successfully maintained its efficiency by reducing both its corporate expenses and the operating expenses of the funds to keep them in line with reduced asset levels. (Please see Management's Discussion and Analysis for more details.) In addition, CI has become more efficient by adopting new technology and by using the Web to make information easily accessible. In fiscal 2001, CI introduced e-CISS, an innovative Web-based service that allows advisers to see extensive information about their clients' accounts at CI. In fiscal 2002, CI built on this service with the e-Service Centre, which allows unitholders to view their account information, statements, confirmations and tax receipts. They also have the option of receiving this information electronically instead of by mail, saving the expense of printing and mailing these documents.



Acquisition of Spectrum Investments and Clarica Diversico

On July 25, CI completed the acquisition of Spectrum Investment Management Limited, Clarica Diversico Ltd., the segregated fund business of Clarica Life, and the SunWise segregated funds. CI received $11.7 billion in assets and issued shares worth $652 million – representing a purchase price of 5.6% of assets under management. The acquisition has not only significantly improved CI's current competitive position, but it creates a number of opportunities to exploit economies of scale and to fuel future growth.



CI's fee-earning assets have grown by 43% and mutual fund assets by 48%, making CI the sixth-largest mutual fund company in Canada. At July 31, 2002, CI's market share (of IFIC assets) was 7.14%, up from 4.56% at May 31, 2002. This compares to market share of 2.67% just three years earlier.

The larger size puts CI in a better position to preserve its "shelf space" with financial advisers and other clients. It allows CI to provide more products as well as better support and service.

Along the same line, it allows CI to benefit greatly from increased scale. CI is able to add the Spectrum and Clarica assets – and additional growth – to its existing infrastructure, without a commensurate increase in staff, equipment and other expenses. Therefore, CI is able to take advantage of many synergies as it integrates the Spectrum and Clarica funds.

Furthermore, the acquisition gives CI the opportunity to consolidate funds, making them larger and more efficient and concentrating assets in the hands of CI's select managers. At the same time, it still allows CI to offer a wider choice of funds, along with a wider choice of highly rated portfolio managers.

The deal also provides CI with a new distribution channel in the form of preferred access to the 4,000-member Clarica sales force, as discussed above. With its large, experienced group of wholesalers, CI will be building relationships with these advisers and fostering new business. All of these benefits serve to reinforce CI's existing competitive advantages – demonstrating how the acquisition fits with CI's overall strategy of fostering growth while maintaining financial efficiency.

Indeed, at the time of writing, CI has already realized many of the synergies involved in the acquisition. With the integration of the Spectrum and CI back-office operations, which was completed in early September, the majority of the costs of running Spectrum have been eliminated. The integration was also carried out less than six weeks following the close of the acquisition. In comparison, the integration of BPI Financial's operations took eight months in 1999-2000. By early September, CI had also announced a series of portfolio adviser changes, as well as proposals to merge 33 CI and Spectrum funds into other CI funds. CI expects to integrate the Clarica fund operations by the end of 2002, and to take additional steps to streamline the combined fund lineup in early 2003.

Outlook

CI believes that consolidation will continue in the Canadian fund industry, given its maturity and the heightened competition from other investment products, especially proprietary funds and wrap accounts offered by brokers and dealers. Since the acquisition of Spectrum and Clarica Diversico was announced in May, two other small fund companies have bowed to competitive pressures and announced agreements to be acquired. CI believes it is well placed to benefit from a consolidating industry, and it will continue to consider strategic opportunities as they arise.

CI's priorities are to strengthen its existing relationships and to accelerate growth in its new distribution channels – institutional clients and the Clarica agents. In addition, CI will launch new products and new ways of offering its funds to meet the changing needs of investors, while continuing to integrate the acquired companies and to streamline its lineup of funds.

CI has improved its operations across the board and built on its leadership and its competitive advantages. It has boosted its standing in the industry and moved quickly to realize the benefits of the acquisition. While market conditions remain uncertain, CI is in a superior position to take advantage of a turnaround.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF FINANCIAL HIGHLIGHTS

Years ended May 31 [millions of dollars except per share amounts]

	2002	2001	% change
INCOME STATEMENT DATA			
Revenue			
Management fees	**383.0**	464.5	-18
Administration fees and other income	**24.0**	45.8	-48
Redemption fees	**41.1**	28.7	+43
Performance fees	**1.1**	2.6	-58
Expenses recovered from mutual funds	**63.5**	73.5	-14
Total revenues	**512.7**	615.1	-17
Operating Expenses			
Selling, general and administrative	**80.0**	99.7	-20
Investment adviser fees	**39.8**	41.5	-4
Trailer fees	**97.8**	115.6	-15
Commission Related Expenses			
Net fees paid to securitization	**0.4**	4.2	-90
Distribution fees to limited partnerships	**10.6**	16.2	-35
Amortization of deferred sales commissions	**201.6**	183.9	+10
Other items	**18.5**	20.0	-8
Minority interest	**5.2**	9.6	-46
Income taxes	**22.0**	34.3	-36
Income before amortization of goodwill	**36.8**	90.1	-59
Net income (loss)	**(61.4)**	11.5	-634
Earnings per share before amortization of goodwill	**0.21**	0.49	-57
Operating cash flow	**222.8**	291.9	-24
Operating cash flow per share	**1.27**	1.60	-21
EBITDA*	**265.5**	319.9	-17
EBITDA* per share	**1.51**	1.75	-14
Shareholders' equity, end of year	**56.8**	260.8	-78
Shares outstanding, end of year	**170.8**	180.7	-5

	2002	2001	% change
ASSET MANAGEMENT DATA			
Average mutual fund assets under management	**20,858**	23,649	-12
Total fee-earning assets, end of year	**25,713**	26,834	-4
Mutual fund assets, end of year	**20,422**	22,361	-9
Total gross sales	**3,641**	6,402	-43
Total redemptions	**3,160**	2,933	+8
Total net sales	**481**	3,468	-86

**EBITDA (Earnings before interest, taxes, depreciation and amortization) is a non-GAAP (generally accepted accounting principles) earnings measure, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze the company's results based on this performance measure.*

SELECTED QUARTERLY INFORMATION

Years ended May 31 [millions of dollars except per share amounts]

	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income Statement Data								
Revenue								
Management fees	**96.6**	93.9	92.0	100.5	107.4	113.7	122.4	121.1
Administration fees and other income	**7.2**	5.8	5.2	5.8	6.5	21.5	12.3	5.5
Redemption fees	**11.1**	9.8	10.7	9.5	9.1	7.3	6.4	5.9
Performance fees	**0.0**	0.0	0.7	0.4	0.0	1.2	0.0	1.3
Expenses recovered from mutual funds	**16.2**	16.3	15.5	15.5	18.8	20.0	17.1	17.6
Total revenues	**131.1**	125.8	124.1	131.7	141.8	163.6	158.3	151.3

**EBITDA (Earnings before interest, taxes, depreciation and amortization) is a non-GAAP (generally accepted accounting principles) earnings measure, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze the company's results based on this performance measure.*

	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating Expenses								
Selling, general and administrative	**20.0**	20.6	19.5	19.9	23.4	27.7	23.9	24.5
Investment adviser fees	**9.9**	9.2	10.2	10.5	10.2	11.5	10.7	9.1
Trailer fees	**24.9**	24.1	23.2	25.5	26.4	28.8	30.3	30.1
Commission Related Expenses								
Net fees paid to securitization	**0.0**	0.0	0.0	0.4	1.0	1.1	0.5	1.6
Distribution fees to limited partnerships	**2.5**	2.4	2.6	3.0	3.3	3.8	4.3	4.9
Amortization of deferred sales commissions	**49.4**	51.0	50.9	50.3	47.2	47.7	45.8	43.2
Other items	**8.1**	3.5	3.4	3.7	4.9	5.9	4.8	4.4
Minority interest	**1.2**	1.3	1.4	1.4	1.5	1.9	2.8	3.5
Income taxes	**5.5**	4.4	5.4	6.7	(0.2)	7.8	12.8	13.9
Income before amortization of goodwill	**9.8**	9.2	7.5	10.3	24.0	27.6	22.3	16.1
Net income (loss)	**(14.8)**	(15.3)	(17.1)	(14.3)	4.4	8.0	2.7	(3.5)
Earnings per share before amortization of goodwill	**0.06**	0.05	0.04	0.06	0.13	0.15	0.12	0.09
Earnings per share	**(0.09)**	(0.09)	(0.10)	(0.08)	0.02	0.04	0.02	(0.02)
Fully diluted earnings (loss) per share	**(0.09)**	(0.09)	(0.10)	(0.08)	0.02	0.04	0.01	(0.02)
EBITDA*	**65.7**	65.7	65.1	68.9	75.0	85.3	83.5	76.2
EBITDA* per share	**0.38**	0.38	0.37	0.38	0.41	0.47	0.46	0.42
Average mutual fund assets under management	**20,992**	20,827	20,220	21,384	22,103	23,515	24,831	24,156

Overview of CI's Business

The principal business of C.I. Fund Management Inc. is the management, marketing, distribution and administration of mutual funds and other fee-earning investment products for Canadian investors through its wholly-owned subsidiary CI Mutual Funds Inc. ("CI"). In addition, through its money management subsidiaries, CI manages institutional assets for clients on a global basis. At May 31, 2002, fee-earning assets totalled $25.7 billion, represented by $20.4 billion in mutual funds, $789 million in labour-sponsored funds, $245 million in closed-end and other funds and $4.3 billion in institutional assets (through BPI Global Asset Management LLP and Trilogy Advisors, LLC). CI markets its funds to Canadian retail investors through over 40,000 financial advisers representing over one million retail investment accounts owning CI mutual funds. CI's share of total Canadian mutual fund assets as reported by the Investment Funds Institute of Canada was 4.71% at May 31, 2002.

There are four critical components to CI's business:

1. Investment Products
2. Investment Management
3. Investment Product Distribution
4. Investment Product Administration

Investment Products

CI believes that in order to attract and maintain investor interest in its products, it is essential to offer a wide range of investment products and continually develop new products to adapt to changing investor preferences. CI's product line encompasses a broad range of global and domestic funds offering a variety of investment styles. In addition, CI has consistently developed new products for investors such as sector-specific funds, portfolio-based funds, fee-based portfolio management services, closed-end funds, segregated funds, 100% RSP-eligible foreign funds and hedge funds.

In fiscal 2002, CI launched a number of new funds to broaden its lineup of value-based funds, hedge funds, RSP-eligible funds, sector funds and portfolio funds. In June 2001, CI created CI Global Focus Value Sector Fund and CI Global Focus Value RSP Fund. These funds are managed by Altrinsic Advisors, LLC under portfolio manager John Hock. In July 2001, CI launched CI American Value Sector Fund and CI American Value RSP Fund. These funds are managed by Steinberg Priest & Sloane Capital Management, LLC under portfolio manager Bill Priest.

CI also expanded its lineup in July 2001 by offering new versions of existing funds with the launch of CI European RSP Fund, CI Latin American RSP Fund, CI Global

management, marketing, distribution and administration of mutu

Value RSP Fund, CI International Balanced Sector Fund, CI International Value RSP Fund, CI International Sector Fund, CI Short-Term US$ Sector Fund, Landmark Canadian Sector Fund, Signature Canadian Resource Sector Fund and Signature Select Canadian Sector Fund.

In August 2001, CI launched Landmark Global Opportunities Fund, which is a hedge fund managed by Webb Capital Management LLP under portfolio manager Derek Webb.

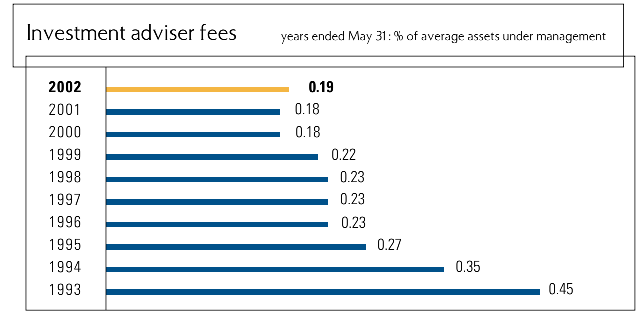
In September 2001, CI launched a family of portfolio funds within the CI Guaranteed Investment Funds (GIFs), CI's key segregated fund product. These combine a number of CI funds in predetermined portfolios designed to meet differing investor preferences and to simplify the overall investment process. New funds created under this program were CI Aggressive Growth GIF Portfolio, CI Growth GIF Portfolio, CI Moderate GIF Portfolio and CI Conservative GIF Portfolio.

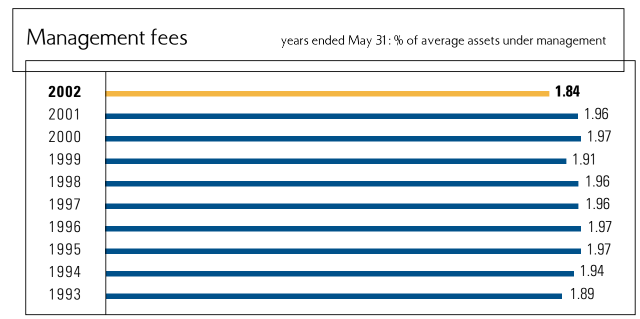
In December 2001, CI created portfolio funds for its mutual fund lineup. They are CI Conservative Portfolio, CI Conservative RSP Portfolio, CI Balanced Portfolio, CI Balanced RSP Portfolio, CI Growth Portfolio, CI Growth RSP Portfolio, CI Maximum Growth Portfolio and CI Maximum Growth RSP Portfolio.

In December 2001, Trilogy Global Opportunities Fund was launched. This is a hedge fund managed by Trilogy Advisors, LLC, the sister company to CI Global Advisors LLP. The fund's portfolio manager is Robert Beckwitt.

In January 2002, CI enhanced its lineup of hedge funds by launching RSP versions of BPI American Opportunities Fund, BPI Global Opportunities III Fund, Landmark Global Opportunities Fund, Trident Global Opportunities Fund and Trilogy Global Opportunities Fund.

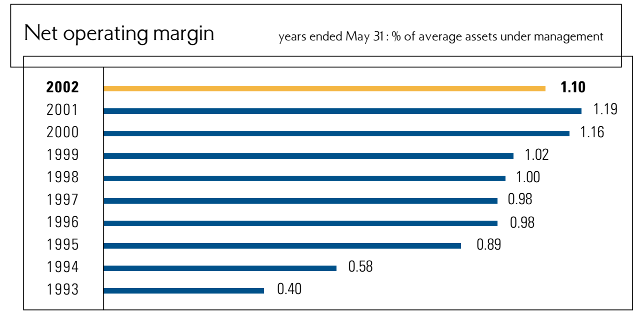
In March 2002, CI launched Altrinsic Opportunities Fund, a hedge fund managed by Altrinsic Advisors, LLC under the direction of John Hock. In March, CI also launched CI Multi-Manager Opportunities Fund, a fund-of-fund structure that utilizes five of CI's hedge funds to provide additional diversification by manager and investment style.





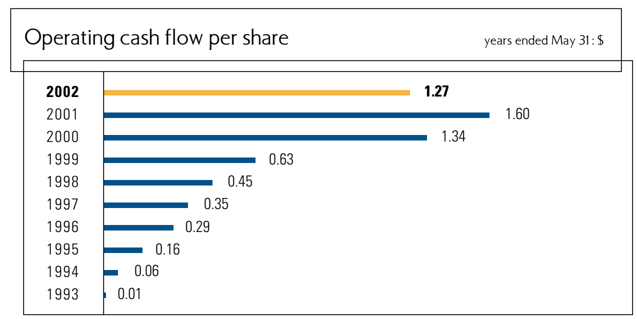
In May 2002, CI launched Harbour Foreign Equity Sector Fund and Harbour Foreign Equity RSP Fund managed by Gerald Coleman of CI's in-house Harbour Funds management team.

In addition to launching new funds, CI has modified existing products to make them more attractive for inclusion in new investment structures such as fee-based accounts and proprietary funds offered by investment dealers, mutual fund dealers, banks and insurance companies.



Investment Management

In order to offer a broad range of investment products, CI retains the services of a number of investment advisers. CI uses three structures to ensure it can attract and maintain the investment management expertise CI believes is necessary to meet investors' needs:



1. CI maintains sub-advisory agreements with independent investment managers who are compensated on the basis of assets under management. At May 31, 2002, CI had sub-advisory agreements with J. Zechner Associates Inc. of Toronto (which managed $541.5 million in bond funds), Trident Investment Management, LLC of New York (which managed $570.9 million in several equity mutual funds focusing on specific geographic regions, two globally oriented hedge funds and a multi-manager fund) and Steinberg Priest & Sloane Capital Management, LLC (which managed $96.6 million in a value-oriented equity fund and in two multi-manager funds).

2. CI employs money managers directly. At May 31, 2002, CI managed $8,382.1 million in a diversified mix of funds using value and growth-oriented investment approaches. CI's in-house investment teams operate under the Harbour Funds, Signature Funds and CI Funds brands and include well-known money managers such as Gerry Coleman, Eric Bushell, Robert Lyon, Andrew Waight and Ben Cheng.

3. CI has partnership agreements with investment advisers whereby CI owns a controlling interest or has a significant economic interest in the partnership. This structure gives the investment

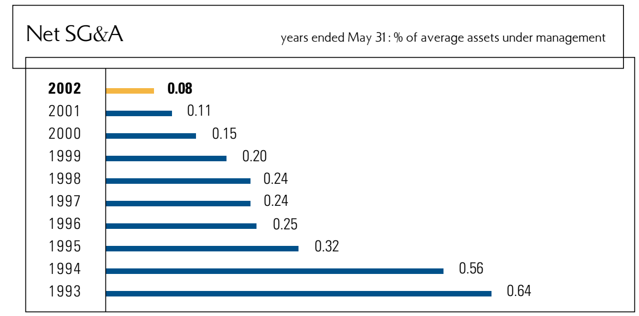
adviser, through direct equity participation in the partnership, an incentive to grow the assets under management and attract money from sources other than CI. An equity stake in the partnership also encourages the advisers to stay with CI over the long term. CI has four investment advisory partnerships of this type:

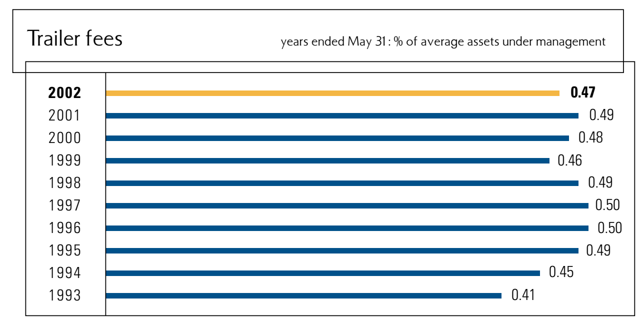
- CI Global Advisors LLP ("CI Global Advisors") of New York, established in November 1999, is 55% owned by CI and 45% owned by Trilogy Advisors, LLC ("Trilogy Advisors"). CI also has a 45% interest in Trilogy Advisors. CI Global Advisors had mutual fund assets under management at May 31, 2002, of $6,651.4 million in a number of growth-oriented funds, industry-specific funds, a multi-manager fund, and a hedge fund. Trilogy Advisors had $140.6 million in institutional assets and a hedge fund.

- BPI Global Asset Management LLP ("BPI Global Asset Management") of Orlando, Florida, formed in March 1997, is 66% owned by CI and 34% owned by JBS Advisors, Inc. At May 31, 2002, it had $2,692 million of growth-oriented mutual fund assets under management, including a portion of two multi-manager funds and $675.2 million of retail hedge funds, and institutional assets of $4,117 million (including $172.2 million of institutional hedge funds).

- Webb Capital Management LLP ("Webb Capital Management") of San Francisco, California, formed in June 2000, is 55% owned by CI and 45% owned by Webb Capital Investors LLC. At May 31, 2002, it had assets under management of $703.5 million in several momentum-based growth funds, a multi-manager fund and a hedge fund (which had assets totalling $40.6 million). CI also has a 25% interest in Webb Capital Partners, LLC of San Francisco, formed in August 2001, which manages Augury Partners L.P., an institutional hedge fund that was launched on June 5, 2002.

- Altrinsic Advisors, LLC ("Altrinsic Advisors"), a value-oriented investment team established in December 2000 and based in Old Greenwich, Connecticut, is 49% owned by CI. It had assets under management of $779.8 million at May 31, 2002, in several globally oriented funds, two multi-manager funds and a hedge fund. CI also has a 25% profit participation in Altrinsic





Global Advisors, LLC, which had $7.8 million in assets under management at May 31, 2002, in an institutional hedge fund.

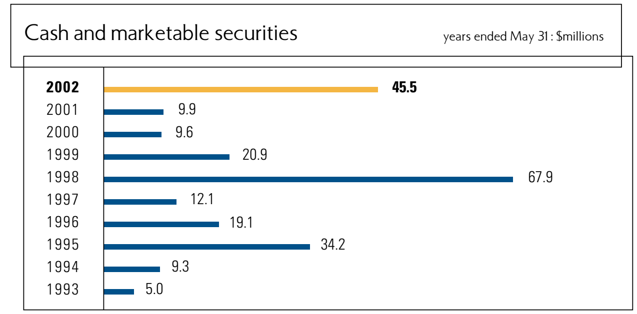
During the year no changes were made to the sub-advisory responsibilities for CI's funds.

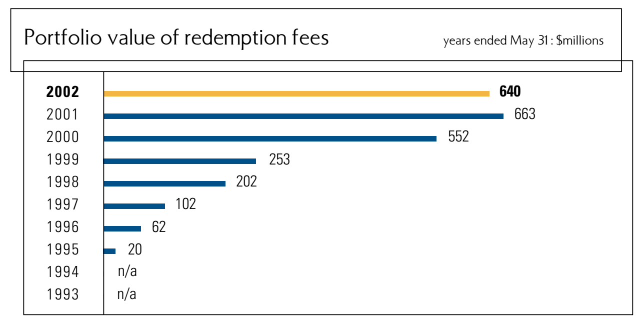
Investment Product Distribution

CI distributes its investment products through investment dealers, mutual fund dealers, insurance agents and banks. In order to support these distribution channels, CI ensures it has an extensive number of knowledgeable and experienced staff members, including CI representatives who deal directly with the distributors of CI's funds, and in-house fund support personnel, who have access to detailed records of distributors' fund assets and transactions with CI. In addition, CI provides distributors with extensive information about its funds and investment advisers through the Internet, various publications and through appearances and presentations by the funds' advisers.

A key element of CI's product distribution strategy has been to be adaptive and responsive to changes in investor demand for new financial products. CI has the broadest range of funds available in Canada – a lineup that encompasses numerous styles and fund mandates.

CI believes this strategy is critical to maintaining shelf space with mutual fund distributors, as they have reduced the number of fund families they are willing to support and promote, resulting in a limited number of fund companies dominating Canadian mutual fund sales. During CI's most recent fiscal year, its gross sales of mutual funds totalled $3.641 billion and were ranked sixth among the independent mutual fund companies (i.e. non-bank owned). In the prior year, CI ranked fifth for gross sales of its mutual funds. CI's net sales of mutual funds (gross sales less redemptions) ranked ninth among all independent mutual fund companies in Canada during the most recent fiscal year. In fiscal 2001, CI ranked second in net sales.

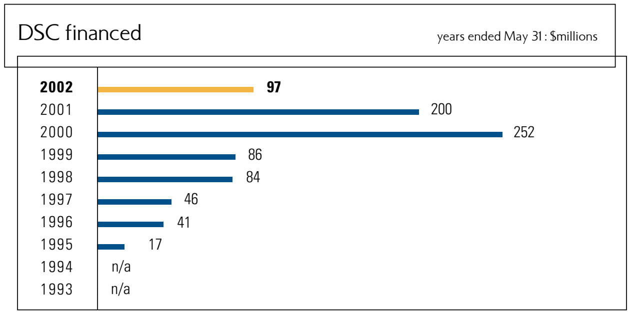


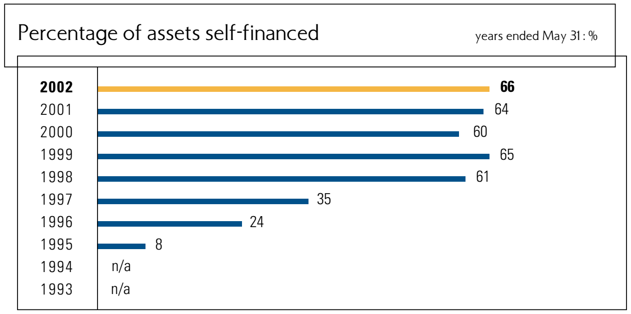


Investment Product Administration

Providing investors and distributors of CI funds with accurate and timely information on purchases, redemptions, transfers, switches and holdings requires a highly efficient administrative operation. CI has made extensive investments in technology to ensure its clients receive information quickly and in a cost-efficient manner. In fiscal 2001, CI introduced its electronic client account information system (eCISS) and made it available to fund distributors over the Internet. It allows them to easily access detailed and up-to-date client account information and gives them the ability to print trade confirmations, fund annual reports, duplicate account statements and tax receipts. In fiscal 2002, this service was extended to investors through CI's e-Service Centre. This, in combination with other efficiency-based system enhancements, has ensured that CI continues to focus on being among the most efficient fund administrators in the industry. This is reflected in the fact that the costs CI incurs to administer its funds are among the lowest in the industry as a percentage of assets.

A key strength of CI has been its ability to quickly provide administrative capacity for new products. In recent years, CI has successfully launched numerous new products, including institutional class funds, portfolio funds, segregated funds, 100% RSP-eligible foreign funds, hedge funds, closed-end funds and a wrap program. These new products have had the appropriate administrative support to achieve market penetration and have contributed significantly to CI's assets under management.





Overview of CI's Revenues and Expenses

The majority of CI's revenues are earned from the management services it provides as fund manager. The key determinant of CI's revenue is its level of assets under management, which is determined by both market returns and net sales of the funds. Management fees charged by CI to the funds range up to 2.25% of the average net asset value of the funds. CI focuses on offering retail funds (known as Class A funds) – especially equity funds, which earn management fees ranging from 2.00% to 2.25%. Approximately 82% of CI's mutual fund assets are in equity funds. CI also offers funds with lower management fees that are designed to be included in fee-based products or fund-of-fund products.

These funds, known as Class F and Class I funds, have management fees that are at levels approximately 1% or more below CI's Class A funds. In return for lower management fees, Class I and Class F funds do not pay trailer fees, and Class I funds are provided service at an efficient cost due to their larger average account size. At May 31, 2002, there were $75.3 million and $524.0 million in Class F and Class I funds, respectively, compared with $28.7 million and nil on May 31, 2001.

Income potential from sources other than management fees has also become significant. CI manages a number of hedge funds that provide performance fees. In general, the fees amount to 20% of returns in excess of certain thresholds, with CI receiving approximately 40% and the investment adviser and the fund distributor receiving the remainder. At May 31, 2002, CI managed $798 million of hedge fund assets that could potentially earn performance fees.

CI's ownership stakes in Trilogy Advisors, BPI Global Asset Management, Altrinsic Global Advisors and Webb Capital Partners position CI to benefit from the growth in revenues and profits on assets these firms manage for organizations other than CI. At May 31, 2002, BPI Global Asset Management had $4.1 billion in institutional assets ($2.7 billion at May 31, 2001) and Trilogy Advisors had $141 million in institutional assets ($532 million at May 31, 2001). Income related to institutional assets is reported under administration fees and other income.

CI also earns revenues from redemption fees. Investors pay redemption fees when mutual funds are purchased on a deferred sales charge basis and the investment is redeemed within seven years. Redemption fees, which have rates that start at 5.5% and decline to zero after seven years, are calculated as a percentage of the initial value of the funds sold.

CI is responsible for the administration of the funds and incurs expenses on behalf of the funds. CI recovers most operating expenses by charging an administration fee to the funds based on actual expenses incurred in the operation of the funds.

Expenses

CI incurs certain key expenses in the management, marketing and distribution of the funds. These expenses – which constitute the majority of its expenses outside those operational expenses incurred on behalf of and recovered from the funds – include investment management expenses, marketing expenses, and trailer fees and selling commissions paid to financial advisers.

Operating expenses, net of those recovered from the funds (referred to as net selling, general and administrative expenses), are primarily marketing expenses. In general, marketing expenses are managed in proportion to CI's assets under management.

Advisory fees paid to investment advisers, other than those employed directly by CI, are generally paid on the basis of a percentage of assets under management. CI's advisers have different fee agreements and therefore the mix of funds will affect the overall expense level.

In addition, BPI Global Asset Management, CI Global Advisors, Webb Capital Management and Altrinsic Advisors will generally become more profitable as their assets under management increase. CI, through its equity ownership, participates in the profitability of these companies, effectively reducing its investment advisory expenses as a percentage of assets under management. Expenses related to institutional assets are reported under other expenses.

Trailer fees are paid out to investment and mutual fund dealers and life insurance agents to assist them in providing ongoing support to investors in CI funds. Trailer fees are calculated as a percentage of average assets and vary with overall assets under management. Trailer fees are not paid on Class F and Class I mutual funds and institutional assets.

CI monitors its operating profitability by measuring the operating margin calculated as a percentage of average mutual fund assets under management. CI's operating profit margin is defined as management fees from CI's funds less investment adviser fees, trailer fees, and selling, general and administrative expenses net of expenses recovered from the funds, calculated as a percentage of average mutual fund assets under management. Although operating profit margin is a non-GAAP (generally accepted accounting principles) earnings measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers, management believes that most shareholders, creditors, other stakeholders and investment analysts prefer to analyze the company's results based on this performance measure. This allows CI to manage profitability when changes in the market value of assets under management affect revenue flows and permits adjustments to discretionary expenditures in order for CI to maintain its margins.

Commissions paid from CI's cash resources on the sale of funds on a deferred sales charge basis are, for financial reporting purposes, amortized evenly over the 36 months immediately following the sale of the funds.

Commissions incurred on certain of CI's assets were financed historically by limited partnerships or securitization vehicles. The expenses for commissions financed by limited partnerships are reported as distribution fees paid to limited partnerships and are calculated as a percentage of the assets. The effective amortization period for commissions financed by limited partnerships is the life of the CI Master Limited Partnership, which will terminate by 2016.

The expense for commissions financed by securitization are reported as net fees paid to securitization and reflect an effective amortization period equal to the life of the securitization vehicle. In June 1998, CI repurchased all of the outstanding notes issued by one of CI's securitization vehicles. The remaining effective unamortized commissions financed by this securitization vehicle were amortized over the period ending February 28, 2001, and are included in the amortization of CI's deferred sales commissions. In July 2001, CI repurchased all of the obligations of BPI (1995) Fees Partnership. The remaining effective unamortized commissions were amortized over the period ending May 31, 2002, and are included in the amortization of CI's deferred sales commissions.

Year ended May 31, 2002 compared with year ended May 31, 2001

Total fee-earning assets (which includes mutual fund assets as well as Covington Funds, DDJ Canadian High Yield Fund, Insight Program, Keystone Fund, BPI Global Asset Management and Trilogy Advisors institutional accounts, VenGrowth Investment Fund I Inc. and ENSIS Growth Fund Inc.) at May 31, 2002, were $25.7 billion, down 4.1% from $26.8 billion at May 31, 2001. Average mutual fund assets under management were $20.9 billion in fiscal 2002, a decrease of 11.4% from $23.6 billion in fiscal 2001. As most of CI's revenues and expenses are based on assets throughout the year, average asset levels are critical to the analysis of CI's financial results. The decline in CI's assets was directly attributable to the decline of all major equity markets around the world. As CI's assets are generally equity funds, any decline in equity markets will have a comparable effect on CI's assets.

Gross sales of the funds were $3.641 billion for the year ended May 31, 2002, compared with $6.402 billion for the same period in 2001. Net sales (gross sales less redemptions) were $481 million for the year ended May 31, 2002 – compared with $3.468 billion for the same period in 2001. The decrease in CI's net sales from 2001 reflected the effects of a significant downturn in equity markets especially in the area of growth stocks. In turn, this affected flows into equity mutual funds, especially several broad-based and industry-specific funds that had been best-sellers for CI in fiscal 2001. Redemptions of CI's funds were $3.160 billion in fiscal 2002, compared with $2.933 billion in fiscal 2001.

Total revenues decreased to $512.8 million for the year ended May 31, 2002, from $615.1 million for the same period in 2001. Revenues from management fees were $383.0 million for the year ended May 31, 2002, down from $464.5 million in 2001. The decrease was primarily attributable to declines in asset levels but also to changes in asset mix, including a higher proportion of Class I and Class F funds that have lower management fees. As a percentage of average mutual fund assets under management, management fees were 1.84% for fiscal 2002, down from 1.96% in fiscal 2001. Performance fees totalled $1.1 million for the year ended May 31, 2002, versus $2.6 million in 2001, as the performance of CI's hedge fund assets were generally below the levels required to generate performance fees. Administration fees and other income (which includes investment income, revenues from investment management subsidiaries, administrative fees, interest, and gain on sale of marketable securities) decreased from $45.8 million to $24.0 million. The primary contribution to the decrease was the $22.6 million in gains on marketable securities realized in 2001. In fiscal 2002, the largest contributor to administrative fees and other income was revenue from institutional business at BPI Global Asset Management and Trilogy Advisors of $15.6 million, up slightly from $15.5 million in 2001. Revenues from third-party processing were $6.1 million in fiscal 2002, compared with $5.5 million in the prior year. Redemption fees rose from $28.7 million in fiscal 2001 to $41.1 million in fiscal 2002 as a result of increased redemptions of assets financed from CI's cash resources.

Net fees paid to securitization vehicles were $0.4 million for the year ended May 31, 2002, compared with $4.2 million for the year ended May 31, 2001. The decrease reflects the repurchase of the BPI securitization in July 2001. No fees were paid to securitization vehicles after the repurchase in July 2001.

Expenses incurred but recovered as operating expenses of the mutual funds fell to $63.5 million for the year ended May 31, 2002, down 13.6% from $73.5 million in 2001. As a percentage of assets under management, expenses charged to mutual funds declined 3.2% from 0.31% in fiscal 2001 to 0.30% in fiscal 2002. The decline in expenses resulted from improved operating efficiencies combined with cuts in general expenses achieved through reductions in staff numbers and in variable costs.

Total selling, general and administrative expenses were $80.0 million in fiscal 2002, down 19.8% from $99.7 million in fiscal 2001. This compares favourably to the decline of 11.4% in average mutual fund assets.

Selling, general and administrative expenses (net of expenses recovered from the mutual funds for activities carried out in support of the funds) were $16.5 million, down 37.0% from $26.2 million in the prior fiscal year – reflecting CI's stringent cost controls implemented to offset in part the effects of market declines. As a percentage of assets under management, the net selling, general and administrative expenses declined 27.3% to 0.08% in fiscal 2002 from 0.11% in fiscal 2001.

Investment adviser fees decreased 4.1% from $41.5 million in fiscal 2001 to $39.8 million in fiscal 2002 due to lower levels of assets under management. As a percentage of average assets under management, investment adviser fees were 0.19% in fiscal 2002, up from 0.18% in fiscal 2001. This increase is a reflection of the fact that CI's investment adviser subsidiaries have minimum cost levels necessary to maintain the integrity of the money management function.

Trailer fees decreased from $115.6 million to $97.8 million in fiscal 2002. As a percentage of average assets, trailer fees were 0.47% in fiscal 2002, compared with 0.49% in the prior fiscal year. This decrease resulted from an increase in the percentage of CI's mutual fund assets purchased in Class F and Class I funds that do not pay trailer fees, and from the 11.4% decrease in average mutual fund assets.

CI's operating margin, as a percentage of average mutual fund assets under management, was 1.10%, down from 1.19% in the prior fiscal year. The decrease resulted from lower management fees offset in part by lower net selling, general and administrative expenses and trailer fees.

Distribution fees to limited partnerships totalled $10.6 million, down from $16.2 million in fiscal 2001. As a percentage of average assets, distribution fees to limited partnerships declined from 0.07% to 0.05%, reflecting a lower percentage of CI's overall assets under management having been financed by limited partnerships.

Amortization of deferred sales commissions represented CI's largest expense increase, rising from $183.9 million in fiscal 2001 to $201.6 million in fiscal 2002. The increase was a direct result of the "lag effect" of CI's industry-record sales in fiscal 2000 and continued strong sales in fiscal 2001, combined with additional amortization from the inclusion of $11.9 million in unamortized deferred sales commissions from BPI (1995) Fees Partnership. Amortization of goodwill from the acquisition of BPI Financial Corporation in August 1999 totalled $98.3 million in fiscal 2002 ($78.6 million in 2001), reflecting full amortization of all remaining goodwill from that acquisition.

Other expenses rose from $13.6 million in fiscal 2001 to $15.3 million in fiscal 2002 in conjunction with revenues recognized under administration fees and other income of $24.0 million. The primary contributors to the increase were expenses associated with CI's institutional business, which rose from $7.7 million in fiscal 2001 to $8.9 million in fiscal 2002. Expenses attributable to CI's third-party back-office processing were $2.4 million in fiscal 2002, compared with $2.7 million in the prior year. In addition, CI incurred expenses of $3.6 million related to general corporate expenses. Minority interest in CI's earnings was $5.2 million for the year ended May 31, 2002, compared with $9.6 million in 2001. This reflects the 45% interest of Trilogy Advisors in CI Global Advisors and the 34% interest of JBS Advisors, Inc. in BPI Global Asset Management.

In addition, the provision for future income taxes decreased by $21.8 million during the year, as a result of reductions in future statutory tax rates, and the reversal of timing differences related to sales commissions.

Income before amortization of goodwill for the year ended May 31, 2002, was $36.8 million ($0.21 per share or $0.20 per diluted share), compared with $90.1 million ($0.49 per share or $0.47 per diluted share) in 2001. The decline reflects CI's lower assets under management, which reduced operating profitability, combined with the $17.7 million increase in amortization of deferred sales commissions. After amortization of goodwill, CI had a net loss of $61.4 million for the year ended May 31, 2002, compared with a net income of $11.5 million for the year ended May 31, 2001.

For the year ended May 31, 2002, earnings before interest, taxes, depreciation and amortization (EBITDA) totalled $265.5 million ($1.51 per share or $1.46 per diluted share). This compares with $319.9 million ($1.75 per share or $1.68 per diluted share) in the prior fiscal year. Although EBITDA is a non-GAAP earnings measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers, management believes that most shareholders, creditors, other stakeholders and investment analysts prefer to analyze the company's results based on this performance measure.

In fiscal 2002, CI granted 1.4 million stock options to employees and directors of the company. The total cost of the options issued over their five year life was approximately $4.1 million or 1.6% of fiscal 2002 EBITDA. In calculating the options' value, CI projected the average option life and corresponding stock volatility along with current dividend and interest rate assumptions.

Financing and Liquidity

CI's capital requirements are primarily to finance commissions arising from the sale of funds on a deferred sales charge basis. In fiscal 2002, CI financed $97.2 million in sales commissions with its own cash resources, down from $199.6 million in fiscal 2001. In addition, during fiscal 2002, CI used $139.3 million to repurchase 11.9 million common shares of C.I. Fund Management Inc. at an average price of $11.66 per share. This compares with $47.4 million used to repurchase 3.6 million common shares at an average price of $13.02 per share in fiscal 2001. On May 31, 2002, the closing price of C.I. Fund Management Inc. was $12.00 per common share.

In July 2001, CI repurchased BPI (1995) Fees Partnership for $12.2 million, thereby relieving CI of any future obligations towards this securitization.

CI also had net purchases of marketable securities in the amount of $35.8 million, representing investments in new hedge funds launched by CI's money management subsidiaries and certain other strategic investments. At May 31, 2002, these investments had an unrealized gain of $5.6 million.

In fiscal 2002, CI also paid $10.6 million in dividends to holders of CI common shares.

These funding requirements were met by cash, short-term investments and marketable securities of $5.9 million at May 31, 2001, operating cash flow in fiscal 2002 of $222.8 million (down from $291.9 million in 2001), the issuance of 2.0 million common shares of C.I. Fund Management Inc. from the exercise of stock options at an average price of $3.57 per share for total gross proceeds of $7.3 million, and the use of CI's $250-million line of credit with a Canadian chartered bank.

At May 31, 2002, CI had cash and marketable securities totalling $45.5 million, and $167.5 million available under the $250-million line of credit.

At May 31, 2002, 65.6% of CI's mutual fund assets had been financed with CI's internal cash resources. These assets had a current redemption value of $640 million ($3.75 per share) at May 31, 2002, compared with $663 million ($3.67 per share) at May 31, 2001. At May 31, 2002, 8.0 % of CI's assets were financed by limited partnerships, down from 10.5% at May 31, 2001. At May 31, 2002, none of CI's assets were financed from securitization, down from 2.0% at May 31, 2001. The front-end-load sales assets at May 31, 2002, were 26.4% of mutual fund assets under management, up from 23.7% in the prior year.

Capital expenditures incurred during the year ended May 31, 2002, were primarily for computer hardware and software related to the improvement of systems technology and to support new systems for portfolio trading, reporting and compliance. In fiscal 2001, capital assets for use in the operations of CI's funds were leased with such payments recovered over time through expenses recovered from the funds. Future payments are included under Note 10 – "Lease Commitments" in the Notes to the Consolidated Financial Statements. No additional fixed assets were leased in fiscal 2002.

CI's business does not require the use of any financial instruments for hedging risk other than to hedge the currency risk associated with seed capital investments in the U.S. dollar-denominated hedge funds of CI money management subsidiaries. At May 31, 2002, CI had a U.S. $12.5 million currency hedge in place at a forward rate of $1.5613. At May 31, 2002, the spot rate for U.S. dollars was $1.5279 resulting in an unrealized gain of $0.4 million. Debt outstanding is borrowed on the basis of a floating interest rate. Levels of interest paid are significantly below CI's cash flow and the potential impact of increased interest costs due to an increase in interest rates is minimal and therefore the exposure is not hedged. Should CI's view on its exposure to rising interest rates change, the existing loan agreement provides CI with the option of fixing interest rates.

Quarter ended May 31, 2002 compared with quarter ended May 31, 2001

Total revenues for the quarter ended May 31, 2002, were $131.1 million compared with $141.8 million in the prior year. The change was primarily a result of the decline in management fee revenue from $107.4 million to $96.6 million for the quarter ended May 31, 2002. The primary contributors to this decline were changes in CI's asset mix, reduced fees from non-mutual fund assets such as labour-sponsored funds and lower average assets under management as a result of market-related declines.

Expenses recovered from mutual funds declined by 13.8% to $16.2 million in fiscal 2002 from $18.8 million in fiscal 2001, as CI reduced fund operating expenses to reflect current market conditions. Selling, general and administrative expenses fell 14.5% from $23.4 million in fiscal 2001 to $20.0 million in fiscal 2002, reflecting the effect of stringent cost controls in the overall operations of CI. Net selling, general and administrative expenses fell from $4.6 million in fiscal 2001 to $3.8 million in fiscal 2002, a decline of 17.4%.

Investment adviser fees fell from $10.2 million to $9.9 million for the quarter ended May 31, 2002, reflecting lower assets under management.

Trailer fees declined slightly from $26.4 million to $ 24.9 million in the quarter ended May 31, 2002, reflecting the change in mutual fund assets under management including an increased proportion of Class I funds and Class F funds that do not pay trailer fees.

Overall, CI's operating profit margin, defined as management fees less selling, general and administrative (net of expenses recovered from mutual funds), investment adviser fees and trailer fees, calculated as a percentage of average mutual fund assets under management, was 1.10% for the quarter ended May 31, 2002, compared with 1.19% for the quarter ended May 31, 2001. The change was primarily a result of lower management fees, offset partly by lower net selling, general and administrative expenses and lower trailer fees.

Distribution fees to limited partnerships were $2.5 million for the quarter ended May 31, 2002, compared with $3.3 million in the prior year. The reduction reflects the lower level of the assets financed by limited partnerships.

Amortization of deferred sales commissions was $49.4 million for the quarter, up from $47.2 million in the prior year, reflecting the inclusion of additional deferred sales commissions from the repurchase of BPI (1995) Fees Partnership.

Income taxes for the quarter were $5.5 million, compared with $(0.2) million in the prior year. In the fourth quarter of fiscal 2001, lower statutory tax rates were enacted, so no provision for income taxes was required due to the higher provisions made in the first three quarters. This had a positive effect on net income of approximately $9.5 million in fiscal 2001.

Income before amortization of goodwill was $9.8 million ($0.06 per share and $0.06 per diluted share) for the quarter ended May 31, 2001, compared with $24.0 million ($0.13 per share and $0.13 per diluted share) in the prior year.

Net loss for the quarter was $14.8 million ($0.09 per share and $0.09 per diluted share), compared with net income of $4.4 million ($0.02 per share and $0.02 per diluted share) in the prior year. During the quarter ended May 31, 2002, earnings before interest, taxes, depreciation and amortization (EBITDA) totalled $65.7 million ($0.38 per share or $0.37 per diluted share), compared with $75.0 million ($0.41 per share or $0.40 per diluted share) in the prior year. Sales commissions paid for the quarter totalled $25.8 million compared with $34.5 million in the prior year.

Net sales for the quarter ended May 31, 2002, were $56.3 million, compared with $446.8 million in the prior year. The decline in sales reflected an overall decline in sales of equity mutual funds in the industry due to continued unsettled market conditions, especially in growth-oriented sectors and certain industry sectors such as telecommunications and technology.

CI's average mutual fund assets totalled $21.0 billion for the quarter ended May 31, 2002, compared with $22.1 billion in the prior year.

Outlook

On May 22, 2002, CI entered into an agreement to acquire Spectrum Investment Management Limited ("Spectrum"), the mutual fund subsidiary of Sun Life Assurance Company of Canada, and Clarica Diversico Ltd. ("Diversico"), the mutual fund subsidiary of Clarica Life Insurance Company, from Sun Life Assurance and Clarica.

In exchange, Sun Life Assurance received approximately 71.2 million common shares of CI, which represented 30% of CI based on CI shares outstanding at July 25, 2002, the time the transaction was completed. Based on a weighted average share price of $9.15 on July 25, 2002, the transaction was valued at $652 million.

Under the agreement, CI acquired mutual fund and segregated fund businesses with approximately $11.7 billion in assets under management (as at July 25, 2002). CI also receives preferred access for its products to more than 4,000 Clarica agents and managers.

The transaction also includes a standstill period under which Sun Life Assurance will not increase its stake in CI beyond 34% for three years, subject to certain exceptions. Sun Life Assurance also entered into a shareholders' agreement with certain management shareholders which, among other things, provided Sun Life Assurance with representation on CI's board.

The transaction closed on July 25, 2002, following the required notification to unitholders of the Spectrum and Clarica funds. On completion, CI had $34.7 billion in fee-earning assets, including approximately $29.7 billion in mutual and segregated funds. The effect of the transaction will be a significant increase in the overall revenues, profitability and cash flow of CI due to the addition of approximately $11.7 billion in assets under management and as synergies are achieved in the merger of the three companies' operations.

In other developments, equity markets have declined considerably since May 31, 2002. CI's revenues are directly related to the level of assets under management, which in turn are affected by general levels of equity markets. Since May 2002, CI experienced net redemptions of mutual funds for the first time in over 12 years in reaction to continued declines in overall equity markets. Though a number of CI's products currently have top-quartile performance and/or five-star ratings from Morningstar Canada, it is uncertain as to when overall equity markets will improve and investor interest in mutual funds will return. Though CI continues to exercise a high degree of discipline in controlling expenses, ultimately growth in income is dependent on favourable equity markets.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT TO SHAREHOLDERS

Management of C.I. Fund Management Inc. is responsible for the integrity and objectivity of the consolidated financial statements and all other information contained in the Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are based on management's best information and judgment.

In fulfilling its responsibilities, management has developed internal control systems and procedures designed to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are executed in accordance with appropriate authorization, and that accounting records may be relied upon to properly reflect the Corporation's business transactions.

The Audit Committee of the Board of Directors is composed of outside directors who meet periodically and independently with management and the auditors to discuss the Corporation's financial reporting and internal control. The Audit Committee reviews the results of the audit by the auditors and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval. The external auditors have unrestricted access to the Audit Committee.

Management recognizes its responsibility to conduct the Corporation's affairs in the best interests of its shareholders.

William T. Holland
President and Chief Executive Officer

Stephen A. MacPhail
Executive Vice-President, Chief Operating Officer
and Chief Financial Officer

June 28, 2002

AUDITORS' REPORT

To the Shareholders of
C.I. Fund Management Inc.

We have audited the consolidated balance sheets of **C.I. Fund Management Inc.** as at May 31, 2002 and 2001 and the consolidated statements of income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at May 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada,
June 28, 2002

CONSOLIDATED BALANCE SHEETS

As at May 31

	2002	2001
	$	$
ASSETS		
Current		
Cash	**3,108,213**	40,561
Marketable securities	**42,437,124**	5,860,877
Accounts receivable and prepaid expenses *[note 8(c)]*	**16,959,402**	16,987,611
Total current assets	**62,504,739**	22,889,049
Capital assets *[note 5]*	**2,627,477**	4,125,078
Deferred sales commissions, net of accumulated amortization of $323,507,788 [2001 - $235,695,402]	**221,892,159**	326,202,963
Goodwill, net of accumulated amortization of $235,819,424 [2001 - $137,548,975]	**—**	98,270,449
Other assets *[note 6]*	**3,717,211**	5,516,284
	290,741,586	457,003,823

See accompanying notes

On behalf of the Board:

Director Director

	2002	2001
	$	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**32,486,690**	29,092,929
Income taxes payable	**36,520,643**	1,065,351
Total current liabilities	**69,007,333**	30,158,280
Deferred lease inducement	**1,656,425**	1,976,586
Long-term debt *[note 7]*	**82,500,000**	61,000,000
Future income taxes *[note 9]*	**77,643,569**	99,453,191
Total liabilities	**230,807,327**	192,588,057
Minority interest	**3,174,090**	3,581,944
Shareholders' equity		
Share capital *[note 8(a)]*	**293,449,762**	306,533,632
Deficit	**(236,689,593)**	(45,699,810)
Total shareholders' equity	**56,760,169**	260,833,822
	290,741,586	457,003,823

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT

Years ended May 31

	2002 $	2001 $
REVENUE		
Management fees	**382,991,534**	464,541,841
Administration fees and other income	**23,991,112**	45,771,073
Redemption fees	**41,118,274**	28,708,962
Performance fees	**1,115,281**	2,552,083
Expenses recovered from mutual funds	**63,535,689**	73,481,520
	512,751,890	615,055,479
Net fees paid to securitization vehicles *[note 4]*	**(408,361)**	(4,156,630)
	512,343,529	610,898,849
EXPENSES		
Selling, general and administrative	**80,043,551**	99,659,799
Investment adviser fees	**39,790,637**	41,497,122
Trailer fees	**97,772,685**	115,608,991
Distribution fees to limited partnerships *[note 3]*	**10,558,014**	16,213,665
Amortization of deferred sales commissions	**201,554,618**	183,948,576
Interest *[note 7]*	**3,334,278**	6,461,191
Other	**15,308,436**	13,572,460
	448,362,219	476,961,804
Minority interest	**5,198,447**	9,602,389
Income before income taxes and amortization of goodwill	**58,782,863**	124,334,656
Provision for income taxes		
Current	**43,766,624**	8,487,328
Future	**(21,809,622)**	25,784,698
	21,957,002	34,272,026
Income before amortization of goodwill	**36,825,861**	90,062,630
Amortization of goodwill	**98,270,449**	78,563,693
Net income (loss) for the year	**(61,444,588)**	11,498,937

	2002 $	2001 $
Net income (loss) for the year	**(61,444,588)**	11,498,937
Deficit, beginning of year	**(45,699,810)**	(11,386,906)
Cost of shares repurchased in excess of stated value *[note 8(a)]*	**(118,914,427)**	(41,227,411)
Dividends declared	**(10,630,768)**	(4,584,430)
Deficit, end of year	**(236,689,593)**	(45,699,810)
Earnings per share before amortization of goodwill	**0.21**	0.49
Diluted earnings per share before amortization of goodwill *[note 8(d)]*	**0.20**	0.47
Earnings (loss) per share	**(0.35)**	0.06
Diluted earnings (loss) per share *[note 8(d)]*	**(0.35)**	0.06

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31

	2002	2001
	$	$
OPERATING ACTIVITIES		
Net income (loss) for the year	**(61,444,588)**	11,498,937
Add (deduct) items not involving cash		
Depreciation and amortization	**100,126,519**	83,490,865
Future income taxes	**(21,809,622)**	25,784,698
Amortization of deferred sales commissions	**201,554,618**	183,948,576
Gain on sale of marketable securities	**(805,607)**	(22,628,722)
Minority interest	**5,198,447**	9,602,389
Other	**—**	240,000
	222,819,767	291,936,743
Net change in non-cash working capital balances related to operations	**39,517,370**	(9,381,438)
Cash provided by operating activities	**262,337,137**	282,555,305
INVESTING ACTIVITIES		
Additions to capital assets	**(666,684)**	(2,922,469)
Dispositions of capital assets	**—**	2,024,438
Purchase of marketable securities	**(65,910,415)**	(67,150,702)
Proceeds on sale of marketable securities	**30,139,775**	90,162,059
Sales commissions	**(97,243,814)**	(199,612,481)
Dispositions of other assets	**1,146,423**	4,029,749
Cash used in investing activities	**(132,534,715)**	(173,469,406)

	2002	2001
	$	$
FINANCING ACTIVITIES		
Long-term debt *[note 7]*	**21,500,000**	(57,000,000)
Repurchase of share capital *[note 8(a)]*	**(139,289,860)**	(47,376,185)
Issuance of share capital *[note 8(a)]*	**7,291,563**	5,586,128
Distributions to minority interest	**(5,605,705)**	(9,383,109)
Dividends paid to shareholders	**(10,630,768)**	(4,584,430)
Cash used in financing activities	**(126,734,770)**	(112,757,596)
Net increase (decrease) in cash during the year	**3,067,652**	(3,671,697)
Cash, beginning of year	**40,561**	3,712,258
Cash, end of year	**3,108,213**	40,561
Operating cash flow per share	**1.27**	1.60
Diluted operating cash flow per share *[note 8(d)]*	**1.22**	1.53
Supplemental cash flow information		
Interest paid	**3,009,295**	6,821,228
Income taxes paid	**6,249,789**	8,863,177

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of presentation

The consolidated financial statements include the accounts of C.I. Fund Management Inc. [the "Corporation"], CI Mutual Funds Inc. ["CIMF"] and its wholly-owned subsidiaries, InfoWise Inc., CI GP Limited, CI Fund Services Inc., CI Capital Management Inc., CI FEES Trust, CI Global Holdings Inc. and CI Global Holdings USA Inc. The accounts of partially-owned subsidiaries, BPI Global Asset Management LLP ["BGAM"], CI Global Advisors LLP and Webb Capital Management LLP, are also included in the consolidated financial statements.

Hereinafter, the Corporation and its subsidiaries are referred to as the Corporation.

The Corporation's investment in Trilogy Advisors, LLC, Altus Hedge Partners International Inc. and Altrinsic Global Advisors, LLC are accounted for using the equity method. Accordingly, the Corporation's proportionate share of earnings is included in income.

Revenue recognition

Management fees are based upon the net asset value of the respective funds and are recognized on an accrual basis.

Administration fees are recognized as earned.

Performance fees are recognized when management is assured of their realization.

Redemption fees payable by unitholders of deferred sales charge mutual funds, the sales commission of which was financed by the Corporation, are recognized as revenue on the trade date of the redemption of the applicable mutual fund securities.

Deferred sales commissions

Commissions paid on sales of deferred sales charge mutual funds represent commissions paid by the Corporation to brokers and dealers, and are recorded on the trade date of the sale of the applicable mutual fund securities. These commissions are deferred and amortized over 36 months from the date recorded.

Goodwill

Goodwill is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over three years. The Corporation evaluates the carrying value of goodwill for potential impairment based on estimated future cash flows. Any impairment would be written off to income.

Marketable securities

Marketable securities consist of investments in mutual fund units and shares of publicly traded companies. These investments are carried at the lower of cost and market value.

Capital assets

Capital assets are recorded at cost less accumulated depreciation and amortization. These assets are depreciated or amortized over their estimated useful lives as follows:

Computer hardware	30% diminishing balance or straight-line over three to four years
Computer software	straight-line over two to four years
Office equipment	20% diminishing balance or straight-line over five years
Leasehold improvements	straight-line over the term of the lease
Property	straight-line over twenty-five years

Foreign currency translation

Foreign currency denominated items are translated into Canadian dollars as follows:

Integrated foreign subsidiaries are financially or operationally dependent on the Corporation. Monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars using historical rates. Revenue and expenses are translated at average rates prevailing during the year. Translation exchange gains and losses of integrated foreign subsidiaries are included in income.

Other foreign currency transactions are translated into Canadian dollars using the exchange rate in effect on the transaction date. At the balance sheet date, monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at that date, revenue and expenses are translated at exchange rates prevailing during the year and the resulting translation exchange gains and losses are included in income.

Exchange gains and losses on forward contracts are included in income in the same period as the gains or losses on the items hedged.

Deferred lease inducement

Lease inducements are deferred and amortized over the term of the lease.

Incentive stock option plan

The Corporation has a stock-based compensation plan, which is described in note 8(b). No compensation expense is recognized for the plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Fair value of financial instruments

The estimated fair values of all financial instruments approximate their carrying amounts in the consolidated balance sheets except for marketable securities as at May 31, 2002, which had a market value of approximately $47 million.

The Corporation has a forward contract outstanding as at May 31, 2002 to sell U.S. $12.5 million at a forward rate of $1.5613 on August 15, 2002. The fair value of this contract is approximately $0.4 million as at May 31, 2002.

Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings and operating cash flow per share

The treasury stock method is used in the calculation of per share amounts. Basic per share amounts are determined by dividing income (loss) or operating cash flow, as applicable, by the weighted average number of shares outstanding during the year. Fully diluted per share amounts are determined by adjusting the weighted average number of shares outstanding for the dilutive effect of stock options.

In fiscal 2002, the Corporation has changed its accounting policy for earnings and operating cash flow per share, as described in note 8(d).

2. OPERATIONS

The Corporation is incorporated under the laws of Ontario. The primary business of the Corporation is the marketing, management and administration of the CI Mutual Funds [the "Funds"].

In addition to management fees derived from the Funds, the Corporation recovers administrative expenses incurred on behalf of the Funds relating to their operation.

The Corporation employs the services of various investment advisers to act as advisers with respect to the investment portfolios of the Funds.

In certain cases, the Corporation has granted the rights to arrange for the distribution of the securities of the Funds sold on a deferred sales charge basis to limited partnerships and securitization vehicles *[notes 3 and 4]*.

In addition to commissions paid to dealers on the sale of securities of the Funds by the Corporation, certain limited partnerships and securitization vehicles, the Corporation pays fees ["trailer fees"] to dealers to provide ongoing services to investors in the Funds. These trailer fees range up to 1% per annum based on the net asset value of the underlying securities of the Funds and are payable monthly or quarterly.

3. LIMITED PARTNERSHIPS

During various periods for certain Funds prior to July 31, 1997, selling commissions on sales of securities of the Funds under the deferred sales charge method were financed by various limited partnerships. In return, the limited partnerships receive any redemption fees paid with respect to the related securities and the Corporation is obligated to pay the limited partnerships an annual fee based on the net asset value of the securities sold so long as such securities remain outstanding and the applicable partnership has not been wound up. As at May 31, 2002, the net asset value of securities of the Funds financed by the limited partnerships was $1,612 million [2001 – $2,340 million].

4. SECURITIZATION VEHICLES

During the period from July 1, 1994 to December 31, 1994, selling commissions on sales of securities of certain of the Funds under the deferred sales charge method were paid by BPI (1994) Fees Partnership, and the periods from October 1, 1995 to December 31, 1995 and from June 1, 1998 to December 31, 1998 were paid by BPI (1995) Fees Partnership [collectively, the "Fees Partnerships"]. The Fees Partnerships assumed responsibility for providing transfer agency functions and investor reporting services for the securities financed pursuant to Distribution and Administration Agreements. In return, the Fees Partnerships received any redemption fees paid with respect to the financed securities and received annual distribution and administration fees totaling a maximum of 1.70% of the net asset value of the outstanding financed securities.

On July 31, 2001, the Corporation repurchased the obligations of the Fees Partnerships for $12,190,807. Of this amount, $290,339 was recorded as a current period expense representing interest charges and closing costs, and $11,900,468 was included in deferred sales commissions and amortized over the period ended May 31, 2002.

5. CAPITAL ASSETS

Capital assets consist of the following:

	2002		**2001**	
	Cost $	**Accumulated depreciation and amortization** $	**Cost** $	**Accumulated depreciation and amortization** $
Computer hardware and software	**15,278,599**	**14,215,889**	14,951,373	12,723,325
Office equipment	**4,597,457**	**3,503,316**	4,331,515	2,926,325
Leasehold improvements	**3,257,827**	**3,050,208**	3,184,311	2,977,208
Property	**345,372**	**82,365**	345,372	60,635
	23,479,255	**20,851,778**	22,812,571	18,687,493
Less accumulated depreciation and amortization	**20,851,778**		18,687,493	
Net book value	2,627,477		4,125,078	

Reflected in the accounts of the Corporation for 2001 is additional depreciation and amortization expense of approximately $983,000 as a result of a review of the estimates of the useful life of the capital assets.

6. OTHER ASSETS

Other assets consist of the following:

	2002 $	2001 $
Investment in limited partnership	**1,672,922**	1,801,473
Investment in securitization vehicles	**—**	1,151,316
Investment in BGAM-managed funds	**1,412,427**	1,457,732
Contingency fund deposits	**30,000**	30,000
Other	**601,862**	1,075,763
	3,717,211	5,516,284

7. LONG-TERM DEBT

The Corporation has arranged a revolving credit facility with a Canadian chartered bank for general corporate purposes for $250 million, which expires on September 22, 2005. Amounts may be borrowed under this facility through prime rate loans, U.S. base rate loans or bankers' acceptances, which bear interest at bankers' acceptance rates plus 0.35% to 0.50% depending on the status of a particular financial ratio. The agreement requires the Corporation to meet certain financial ratios on a quarterly basis.

The facility is collateralized by a registered general security agreement from the Corporation, hypothecation of the shares of CIMF, and assignment of the management agreements between CIMF and the Funds.

As at May 31, 2002, $82.5 million [2001 – $61 million] has been drawn on this facility in the form of bankers' acceptances at an effective interest rate of 2.76% [2001 – 4.89%]. Interest expense attributable to the long-term debt in fiscal 2002 was $2,924,577 [2001 – $5,990,276].

8. SHARE CAPITAL

[a] Details with respect to share capital are as follows:

	Common shares	
	Number of shares #	**Stated value** $
Authorized		
Unlimited preference shares		
Unlimited common shares		
Issued		
May 31, 2000	182,829,928	307,096,278
Share repurchase	(3,638,400)	(6,148,774)
Exercise of stock options	1,493,200	5,586,128
May 31, 2001	**180,684,728**	**306,533,632**
Share repurchase	**(11,943,900)**	**(20,375,433)**
Exercise of stock options	**2,044,600**	**7,291,563**
May 31, 2002	**170,785,428**	**293,449,762**

During fiscal 2002, 11,943,900 common shares [2001 – 3,638,400] were repurchased under a normal course issuer bid at an average cost of $11.66 per share [2001 – $13.02] for a total consideration of $139,289,860 [2001 – $47,376,185]. Deficit was increased by $118,914,427 [2001 – $41,227,411] for the cost of the shares in excess of their stated value.

During the period from June 1 to June 28, 2002, the Corporation repurchased an additional 3,149,000 common shares under the normal course issuer bid at an average cost of $11.17 per share for a total consideration of $35,177,584.

[b] Incentive stock option plan

The Corporation has established an incentive stock option plan [the "Plan"] for the executives, key employees and directors of the Corporation. The maximum number of common shares that may be issued under the Plan is 30,054,360. As at May 31, 2002, there are 12,720,200 [2001 – 13,522,000] common shares reserved for issuance on exercise of stock options. These options vest over periods of up to five years, may be exercised at prices ranging from $1.34 to $15.65 per common share with a total exercisable value of $85,447,287 and expire at dates up to 2007.

Details of the Plan activity and status for the years ended May 31, 2002 and 2001 are as follows:

	2002		2001	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Options outstanding, beginning of year	**13,522,000**	**5.77**	13,601,600	4.77
Options granted	**1,372,300**	**12.00**	1,779,600	12.31
Options exercised	**(2,044,600)**	**3.57**	(1,493,200)	3.74
Options cancelled	**(129,500)**	**13.67**	(366,000)	8.76
Options outstanding, end of year	**12,720,200**	**6.72**	13,522,000	5.77
Options exercisable, end of year	**5,467,175**	**4.41**	4,186,600	3.63

Details of the Plan options outstanding and exercisable as at May 31, 2002 are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices $	**Number outstanding**	**Weighted average remaining contractual life [years]**	**Weighted average exercise price $**	**Number exercisable**	**Weighted average exercise price $**
1.34 to 3.00	140,000	1.8	2.71	140,000	2.71
3.01 to 4.00	4,018,700	2.2	3.79	3,497,775	3.78
4.01 to 5.00	4,300,200	3.1	4.67	1,511,300	4.70
5.01 to 10.00	72,000	3.6	7.78	18,000	7.78
10.01 to 15.65	4,189,300	4.6	11.74	300,100	11.00
1.34 to 15.65	**12,720,200**	**3.3**	**6.72**	**5,467,175**	**4.41**

[c] Employee share purchase loans

The Corporation has an employee share purchase loan program. These loans are renewable yearly and bear interest at prescribed rates. As at May 31, 2002, the carrying amount of employee share purchase loans is $2,210,492 [2001 – $3,236,792] and is included in accounts receivable and prepaid expenses. These loans become due immediately upon termination of employment or sale of the shares that are held as collateral. As at May 31, 2002, the shares held as collateral have a market value of approximately $4,620,000 [2001 - $7,995,000].

[d] Earnings and operating cash flow per share and change in accounting policy

In fiscal 2002, the Corporation has retroactively adopted, with restatement of prior year amounts, the recommendations of The Canadian Institute of Chartered Accountants' Handbook Section 3500, *Earnings per Share*. The recommendations require the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities.

The change in accounting policy had no effect on earnings (loss) per share and diluted earnings (loss) per share before and after goodwill amortization for the years ended May 31, 2002 and 2001. The change resulted in an increase in diluted operating cash flow per share from $1.19 to $1.22 for the year ended May 31, 2002 and from $1.50 to $1.53 for the year ended May 31, 2001.

The weighted average number of shares outstanding for the years ended May 31 were as follows:

	2002 #	2001 #
Basic	**176,016,773**	182,715,753
Diluted	**182,098,663**	190,240,501

Diluted loss per share for the year ended May 31, 2002 is calculated using the basic weighted average number of shares outstanding for the year. All other diluted per share amounts are calculated using the diluted weighted average number of shares outstanding, which includes the dilutive effect of stock options. For this purpose, the effect of options for 312,465 shares [2001 — 215,992 shares] have been excluded because such options were not "in the money" during the year.

9. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's future income tax liabilities and assets as at May 31 are as follows:

	2002 $	2001 $
Future income tax liabilities		
Deferred sales commissions	**80,071,822**	123,092,232
Other, net	**27,532**	761,989
Total future income tax liabilities	**80,099,354**	123,854,221
Future income tax assets		
Book depreciation and amortization in excess of CCA	**1,687,762**	1,715,943
Deferred lease inducement	**547,223**	658,262
Ontario corporate minimum tax credits	**220,800**	7,972,834
Non-capital loss carryforwards	**—**	14,053,991
Total future income tax assets	**2,455,785**	24,401,030
Net future income tax liabilities	**77,643,569**	99,453,191

The following is a reconciliation between the Corporation's statutory and effective income tax rates:

	2002 %	2001 %
Combined Canadian federal and provincial income tax rate	**40.2**	42.9
Increase (decrease) in taxes resulting from:		
Large Corporations Tax	**—**	0.3
Non-taxable portion of capital gains	**(0.3)**	(3.5)
Impact of rate changes on future income taxes	**(2.1)**	(12.4)
Other - net	**(0.4)**	0.3
	37.4	27.6

10. LEASE COMMITMENTS

The Corporation has entered into leases relating to the rental of office premises and computer equipment. The approximate future minimum annual rental payments under such leases are as follows:

	$
2003	12,951,000
2004	6,515,000
2005	3,791,000
2006	3,583,000
2007	3,112,000
2008 and thereafter	10,529,000

11. BUSINESS ACQUISITION

On May 22, 2002, the Corporation entered into a purchase agreement to acquire Spectrum Investment Management Limited, the mutual fund management subsidiary of Sun Life Financial Services of Canada Inc., and Clarica Diversico Ltd., the mutual fund management subsidiary of Clarica Life Insurance Company. As consideration, the Corporation has agreed to issue common shares of the Corporation that will represent 30% of the total number of issued and outstanding common shares of the Corporation immediately following the closing of the transaction. Based upon the number of common shares outstanding as at June 28, 2002, this would represent approximately 71 million common shares. The transaction is scheduled to close on July 25, 2002.

CORPORATE DIRECTORY

August 31, 2002

C.I. Fund Management Inc.

Directors and Officers

G. Raymond Chang
Chairman and Director

William T. Holland
President, Chief Executive Officer and Director

Stephen A. MacPhail
Executive Vice-President, Chief Operating Officer and Chief Financial Officer

Peter W. Anderson
Executive Vice-President

Michael J. Killeen
Senior Vice-President, General Counsel and Corporate Secretary

Robert M. Astley
Director

Ronald D. Besse
Director

Paul W. Derksen
Director

A. Winn Oughtred
Director

George W. Oughtred
Director

David J. Riddle
Director

CI Mutual Funds Inc.

Executive

William T. Holland
Chairman, Chief Executive Officer and Director

Stephen A. MacPhail
Director

Peter W. Anderson
President and Director

G. Raymond Chang
Director

Management

Lorraine P. Blair
Senior Vice-President, Human Resources

Kevin Bonello
Vice-President

Ron Bowes
Vice-President

Michael Bustard
Vice-President, Administration

Thomas V. Caswell
Senior Vice-President

Kathy M. Chan
Vice-President, Finance

Marcelo A. Donato
Vice-President

Patrick Flemming
Vice-President

Mike Gramegna
Vice-President

Derek J. Green
Senior Vice-President

Sean Hayes
Vice-President

Fabio Iannicca
Vice-President, Administration

Munir T. Issa
Senior Vice-President, Information Systems

Douglas J. Jamieson
Senior Vice-President, Finance and Chief Financial Officer

K. Michael Kelly
Senior Vice-President

Neal Kerr
Senior Vice-President

Michael J. Killeen
Senior Vice-President, General Counsel and Corporate Secretary

Pierre Lalonde
Vice-President

Patrick LeFrancois
Vice-President

Mark MacLeod
Vice-President, Client Services

Andrew McBain
Vice-President

David R. McBain
Senior Vice-President

Carey W. McIntee
Senior Vice-President

Jeff Nairn
Vice-President

Karl Palmen
Vice-President

David C. Pauli
Senior Vice-President, Fund Operations

Scott Pehleman
Senior Vice-President

Jacques Prévost
Vice-President

Roy Ratnavel
Vice-President

Sylvain Rivard
Senior Vice-President

Alain Ruel
Senior Vice-President

David M. Rupert
Senior Vice-President

Dean Shales
Vice-President, Administration

Greg Shin
Senior Vice-President, Fund Accounting

Philippe Ventura
Vice-President

Julie A. Warren
Vice-President

Michael Warus
Vice-President

Tracey C. Wood
Vice-President

Portfolio Management

Eric B. Bushell
Chief Investment Officer and Senior Vice-President, Signature Funds

Benedict G. Cheng
Vice-President, Signature Funds

Joe D'Angelo
Vice-President, Signature Funds

Robert D. Lyon
Vice-President, Signature Funds

P. Andrew Waight
Vice-President, Signature Funds

Gerald Coleman
Chief Investment Officer, Harbour Funds

Stephen Jenkins
Vice-President, Harbour Funds

CORPORATE INFORMATION

May 31, 2002

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Trading Symbol

C.I. Fund Management Inc. trades on The Toronto Stock Exchange under the symbol "CIX".

Auditors

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Registrar and Transfer Agent

Computershare Trust Company of Canada
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Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253 email: caregistryinfor@computershare.com

The Annual and Special Meeting of Shareholders will be held on October 29, 2002, at 2:00 pm at the Toronto Hilton, Toronto, Ontario.

This Annual Report can be downloaded from CI's website at www.cifunds.com under "Corporate Information."

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