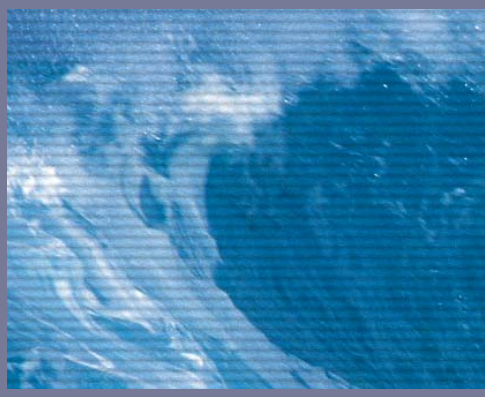
CI FUND MANAGEMENT INC. 2003 ANNUAL REPORT

LEADING CHANGE



KEY FINANCIAL HIGHLIGHTS

Years ended May 31, [in millions of dollars except share and per share amounts]	**2003**	2002	% change
Total fee-earning assets, end of year	**33,084**	25,713	+29
Net sales of mutual and segregated funds	**(596)**	481	-224
Management fees	**509.7**	383.0	+33
Total revenues	**576.2**	449.2	+28
Net selling, general and administrative	**60.5***	16.5	+267
Investment adviser fees	**50.6**	39.8	+27
Trailer fees	**147.4**	97.8	+51
Income before amortization of goodwill	**71.0**	36.8	+93
Net income [loss]	**71.0**	(61.4)	n/a
Operating cash flow**	**245.6**	222.8	+10
Earnings per share before amortization of goodwill	**0.32**	0.21	+52
Operating cash flow** per share	**1.09**	1.27	-14
EBITDA** per share	**1.32**	1.51	-13
Dividends per share	**0.29**	0.06	+383
Shareholders' equity, end of year	**632.7**	56.8	+1,014
Shares outstanding, end of year	**235,525,648**	170,785,428	+38

**Includes option charge.*
***EBITDA (Earnings before interest, taxes, depreciation and amortization) and operating cash flow are non-GAAP (generally accepted accounting principles) earnings measures, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze CI's results based on these performance measures.*

MILESTONES

1994

Initial public offering on the Toronto Stock Exchange at a price per share of $1.375 (adjusted for stock splits).

CI sets industry record of $2.5 billion in net sales.

1997

Launch of the Harbour Funds, led by Gerald Coleman.

CI becomes the first Canadian mutual fund company to offer segregated funds.

1998

CI shares are split two for one.

Launch of the Signature Funds.

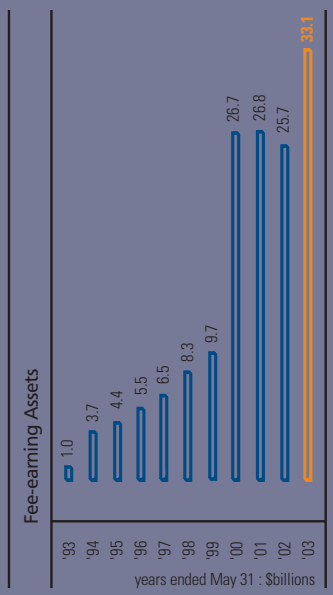
The CI Mutual Funds' Board of Governors established to provide further independent oversight in ensuring the fair and proper treatment of the investors in CI funds.

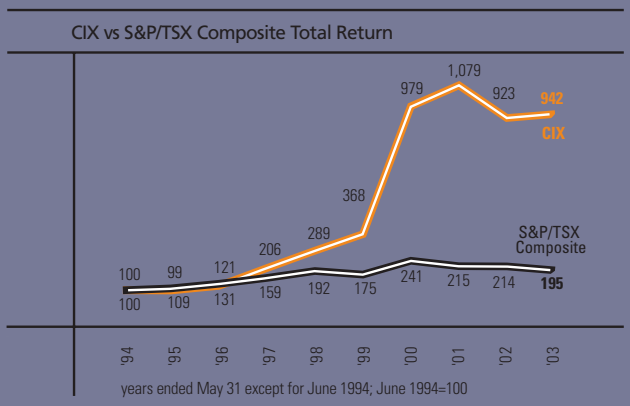
1999

Acquisition of BPI Financial Corporation.

CI Fund Management Inc. is an independent wealth management company with Canada's broadest selection of investment funds. With $35.4 billion in fee-earnings assets at August 31, 2003, CI is the country's sixth-largest fund company and the second-largest publicly traded fund company. CI has its headquarters in Toronto, sales offices across Canada, and portfolio management teams in Toronto, San Francisco, Orlando, Florida, and Old Greenwich, Connecticut.

CI trades on the Toronto Stock Exchange under the symbol CIX and is a member of the S&P/TSX Composite Index.





CI sets a new industry record with net sales of $6.5 billion.

CI shares are split two for one in January and again in November.

2000

CI's Canadian Mutual Fund Awards include Fund Manager of the Year (Gerald Coleman); Best Canadian Equity Fund (Signature Select Canadian Fund); and Best Dividend Fund (Signature Dividend Fund).

2001

Acquisition of Spectrum Investment Management Limited and Clarica Diversico Ltd.

2002

CI reaches agreements to acquire Skylon Capital Corp., Synergy Asset Management Inc., and the Canadian operations of Assante Corporation.

2003

DEAR SHAREHOLDERS

As CI closed the books on fiscal 2003, it seemed that the grinding three-year bear market was finally over. Investors were, for once, enjoying a run of relatively good news.

After hitting a low for the year-to-date on March 12, the markets rebounded dramatically over the rest of the fiscal quarter, even as U.S.-led forces invaded Iraq. In those 11 weeks, the S&P/TSX Composite Index rose 11%, while the S&P 500 Index gained 22% and the MSCI World Index rose 21% (in U.S. dollars). CI's mutual and segregated fund assets increased by 6.6%, and the stock price climbed back to $11.90, just a dime below where it was a year earlier.

William T. Holland, President and Chief Executive Officer

It was quite a change from the first quarter of the fiscal year, when the markets plunged and the outlook was bleak. From June to early August 2002, Canadian, U.S. and global equity indexes fell 20% or more. The markets went on to hit a bottom for the year on October 9 – the date that now appears to mark the low point of the bear market.

At that time, investors were spooked by new corporate scandals and the revelations of questionable practices by research analysts and investment banks. WorldCom put itself into bankruptcy protection, confessing that its executives had committed the largest fraud in history. World political crises compounded investors' worries. India and Pakistan, both nuclear powers, threatened war, while the Israeli-Palestinian conflict intensified once again. And the United States was making its case for invading Iraq.

Fiscal 2003 was, in fact, a highly volatile year, and it shows how much the pace of change has accelerated in the world and in business.

While CI was affected by the bear market, we have taken advantage of the opportunities presented by these difficult times to improve our standing within the industry and reposition our company to meet the challenges of today and the future.

Once again, we believe that **leading change** within our industry will lead to success.

When we initiated a new round of consolidation within the mutual fund business by acquiring BPI Financial Corporation in August 1999, net sales at CI and the industry were growing fast. However, we saw that the combination would allow us to both cut costs and increase sales.

In fiscal 2003, CI acquired Spectrum Investment Management Limited and Clarica Diversico Ltd., with a total of $11.7 billion in assets under management. This transaction increased CI's fee-earning assets by 40% and gave us preferred access to more than 4,000 Clarica agents – one of the country's largest dedicated sales forces. In the midst of an adverse environment, we enhanced CI's competitive position and its capacity to benefit from a recovery in the markets.

Most recently, in August 2003, we announced agreements to acquire Skylon Capital Corp. (a manager of labour-sponsored funds and structured products), Synergy Asset Management Inc. (a mutual fund company with 24 funds), and the Canadian operations of Assante Corporation (Canada's largest independent financial planning firm with its own asset management operations). Combined, these firms have more than $9 billion in assets under management and another $10 billion under administration. With these transactions, we intend to transform CI by expanding our fund lineup into faster-growing areas of the market, by establishing a leading presence in the financial planning business, and by increasing our asset base to a size that would make us the second-largest fund company in Canada.

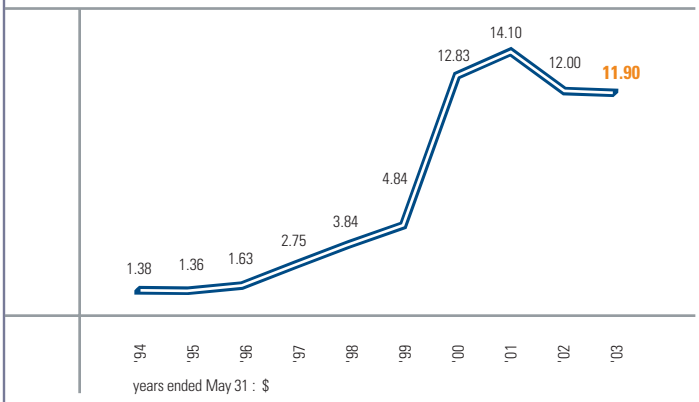
The ability to respond quickly to clients' changing needs and to anticipate future trends is a competitive advantage. It's more than being innovative – it's a willingness to make significant and meaningful changes to our company in order to adapt to the changing environment.

Our success in leading change can be seen in the historical highlights, which show the robust growth of CI's assets and financial strength over the past decade.

In achieving this growth, we have been driven by the principle of creating value for our shareholders. Therefore, the best measure of CI's performance is the total return on its shares. CI's share price finished the fiscal year at $11.90, down slightly from $12.00 on May 31, 2002. However, once dividends of $0.29 are included, CI shareholders enjoyed a year-over-year gain. Over the same period, the S&P/TSX Composite Total Return Index fell 9%.

The return on our stock since CI's initial public offering is an even better gauge of the company's record. From June 1994 to May 31, 2003, CI shares have returned 842%,

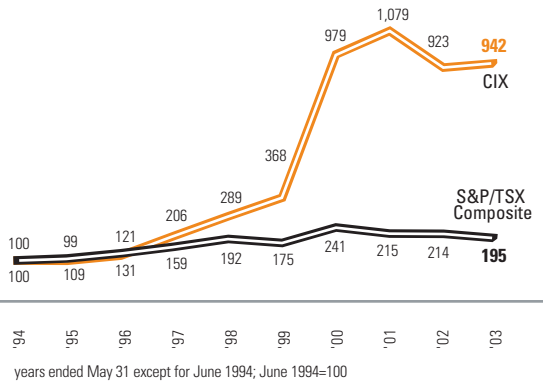
CIX Share Price



CI has repurchased the maximum allowable shares under the normal course issuer bid for the past two years.

resulting in an annualized return of 28%. That's good enough to make CI the fifth-best performing company overall on the S&P/TSX Composite Index during that period.

CIX vs S&P/TSX Composite Total Return



Fifth-best performing company on the S&P/TSX since IPO with an annualized return of 28%.

Our goal is to continue to deliver results and to build on that track record. As part of this, we have returned much of the company's growing free cash flow to shareholders by repurchasing shares and increasing CI's dividend. In fiscal 2003, CI repurchased the maximum number of shares allowed under the normal course issuer bid, buying approximately 10.1 million shares at an average price of $10.30. In fact, we have maximized the share buyback for two years in a row, a feat managed by very few other companies.

At the same time, we increased the quarterly dividend in September 2002 to eight cents per share from five cents, and again in September 2003, to 10 cents per share. Given that CI's quarterly dividend was one cent per share in December 2001, this represents an increase of 900% in just two years. The share buybacks and the dividend increases show that we have not wavered in our commitment to building shareholder value, even in the midst of the worst market conditions in decades.

The rapid integration of Spectrum and Clarica Diversico in fiscal 2003 helped to support the share repurchases and the higher dividend, as we were able to realize a positive financial impact from the transaction almost immediately. Moving the Spectrum and Clarica funds onto CI's lower-cost platform and rationalizing the lineup of investment managers resulted in savings for CI and the funds. Furthermore, we continued to cut general operating costs in response to the equity markets' decline.

We must point out why this is important. The more efficient the funds, the lower the management expenses, which improves our product by directly benefiting unitholders. When compared to smaller or less-efficient companies, the difference can be significant. Of the companies that CI has acquired, we have been able to reduce fund operating expenses by about 50% in most cases.

Managing our business to minimize operating expenses of our funds has always been a cornerstone of CI's fiduciary duty and the results have been demonstrated consistently over the years. Despite three years of declining asset values, CI's fund operating expenses as a percentage of assets were actually lower in fiscal 2003 than they were prior to the start of the bear market in fiscal 2000.

The acquisitions and our attention to expenses also allowed us to maintain CI's EBITDA per share (excluding the stock-based compensation expense recorded in the fourth quarter of fiscal 2003) at the same level as fiscal 2002. Over the same period, the Canadian equity market fell 9%, while the U.S. and global indexes declined more than 19% (in Canadian dollars).

As you can see in our results, employee stock options had a meaningful impact during the year. The expense recorded in the fourth quarter reflects our decision to allow employees exercising options to elect to receive cash from the company rather than buying the shares and selling them into the open market. We adopted this measure for two compelling reasons: it virtually eliminates the dilution that occurs when employees exercise options, since we assume that almost everyone will select the cash option, and by settling options on a cash basis, the cost is treated as a tax-deductible expense.

This measure also preserves the purpose of employee compensation, including options, which is to align the interests of CI's employees and its shareholders. CI believes this is essential in pursuing its mission of building shareholder value. However, CI has been prudent in its use of options, and today outstanding options represent less than 5% of outstanding shares.

I would now like to touch on an issue that has become quite prominent recently – corporate governance. As we said in last year's report, CI has for years been actively instituting sound governance practices, both in the governance of the funds and of the corporation itself.

At CI, procedures and policies that promote integrity and ethical behaviour have been woven into our day-to-day operations. This process is overseen by the CI Mutual Funds' Board of Governors,

William T. Holland
President and Chief Executive Officer

G. Raymond Chang
Chairman

Peter W. Anderson,
Executive Vice-President, CI Fund Management Inc.
President and Chief Executive Officer, CI Mutual Funds Inc.

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

Joseph C. Canavan
Executive Vice-President

which monitors the operations of the funds and ensures that unitholders are treated fairly. The most important feature of this board is that three of its four members are independent of CI. The Board of Governors was established in 1998, making CI one of the first Canadian fund companies to establish an oversight body with true independence.

The Board of Directors of the corporation also fosters proper governance. Six of the eight members of the CI Board of Directors are unrelated directors, while the company has had an unrelated lead director since 1999. And, in fiscal 2003, the board established a Corporate Governance Committee to ensure that the board continues to operate independently of management. More information about CI's corporate governance is in the Operating Review. We believe that our approach has been comprehensive and effective in protecting the interests of the investors in our funds and the shareholders in our corporation.

As we consider the outlook for our industry and our company, conditions appear markedly better than a year ago. Canadian and global equity markets posted double-digit returns through the fourth quarter of fiscal 2003 and the first quarter of fiscal 2004. Unfortunately for Canadian investors, the sudden surge in the value of our dollar since January has offset most of those gains. The S&P 500 Index, for example, rose 16.2% for the year-to-date (to August 31) in U.S. dollars, but was up only 1.7% in Canadian dollars.

Nevertheless, the markets' rebound has had a positive impact. Our funds have taken advantage of this move, with a number of foreign equity funds in particular outperforming their benchmarks by impressive margins for the year-to-date, including CI Value Trust Fund, CI Global Fund, and Landmark American Fund. With regards to the sales of our funds, the pace of net redemptions has slowed to minimal levels. We believe, however,

that it will take some time for investor confidence to rebuild to the point where net sales reach the levels we saw before the bear market.

CI has been well positioned to benefit from this turnaround. The operations of Spectrum and Clarica Diversico were an excellent fit with the competitive advantages we have pursued for years – offering a broad selection of funds and leading portfolio managers, pursuing financial efficiency and expanding the distribution channels for our funds.

Still, our industry remains extremely competitive and we expect that business conditions will continue to be challenging. The acquisitions of Skylon, Synergy and Assante Canada will build on CI's strengths and put us ahead of the curve in exploiting those trends that are becoming critical to our industry. These include the increasing popularity of products that compete with traditional mutual funds, such as structured products, and the growing importance of securing distribution for our funds.

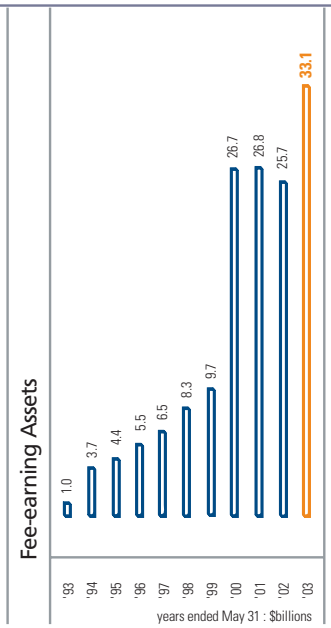
Success in today's investment fund business requires that a company must be within the top tier, be well capitalized, possess an established brand, and have a distribution strategy that stretches across a number of channels. We are confident that we are making CI one of those dominant companies. And with that, we will be in an even better position to be leading change.

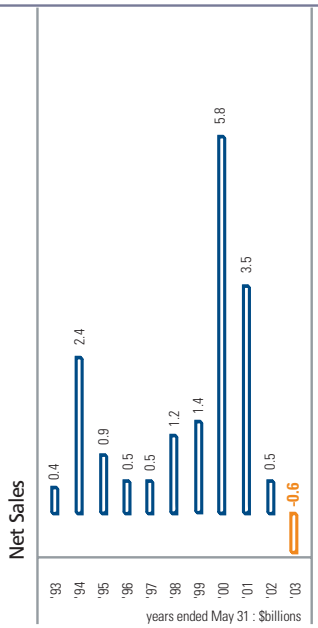
William T. Holland
President and Chief Executive Officer
CI Fund Management Inc.

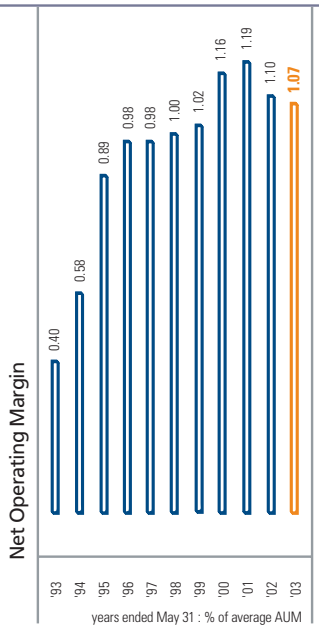
September 30, 2003

HISTORICAL FINANCIAL HIGHLIGHTS [years ended May 31; millions of dollars except share and per share amounts]

	2003	2002	2001	2000
Total fee-earning assets, end of year	**33,084**	25,713	26,834	26,678
Net sales of mutual and segregated funds	**(596)**	481	3,468	5,843
Revenue				
Management fees and other income	**525.8**	407.0	510.3	353.4
Redemption fees	**50.3**	41.1	28.7	22.5
Performance fees	**0.1**	1.1	2.6	21.4
Total revenues	**576.2**	449.2	541.6	397.3
Expenses				
Net selling, general and administrative	**60.5**	16.5	26.2	25.6
Investment adviser fees	**50.6**	39.8	41.5	29.2
Trailer fees	**147.4**	97.8	115.6	79.1
Distribution fees to limited partnerships	**6.8**	10.6	16.2	16.4
Amortization of deferred sales commissions	**169.9**	201.6	183.9	117.8
Other (including securitization and minority interest)	**21.0**	24.1	33.8	21.1
Total expenses	**456.2**	390.4	417.2	289.2
Income taxes	**49.0**	22.0	34.3	51.3
Income before amortization of goodwill	**71.0**	36.8	90.1	56.8
Net income [loss]	**71.0**	(61.4)	11.5	(2.1)
Operating cash flow**	**245.6**	222.8	291.9	230.0
Earnings per share before amortization of goodwill	**0.32**	0.21	0.49	0.33
Operating cash flow** per share	**1.09**	1.27	1.60	1.34
EBITDA** per share	**1.32**	1.51	1.75	1.38
Dividends*** per share	**0.29**	0.06	0.025	0.025
Shareholders' equity, end of year	**632.7**	56.8	260.8	292.1
Shares outstanding, end of year***	**235,525,648**	170,785,428	180,684,728	182,829,928

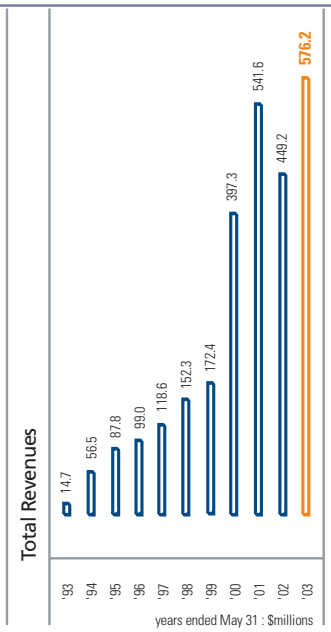


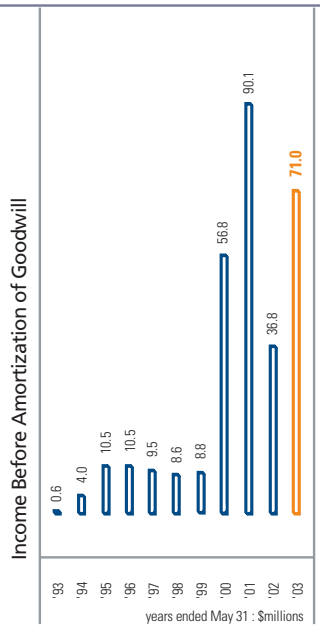


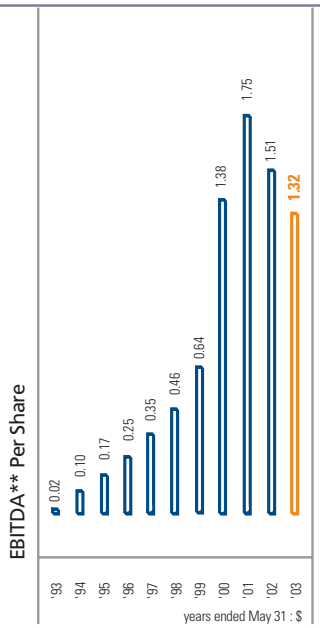


**Does not include $286 million in sales of the closed-end DDJ Canadian High Yield Fund.*
***EBITDA (Earnings before interest, taxes, depreciation and amortization) and operating cash flow are non-GAAP (generally accepted accounting principles) earnings measures, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze CI's results based on these performance measures.*

1999	1998	1997	1996	1995	1994	1993
9,700	8,302	6,516	5,469	4,394	3,733	960
1,369	1,189*	461	537	909	2,463	402
158.0	143.9	114.5	97.6	87.6	56.5	14.7
14.4	8.4	4.1	1.4	0.1	—	—
—	—	—	—	—	—	—
172.4	152.3	118.6	99.0	87.8	56.5	14.7
16.2	17.6	13.9	12.2	13.3	17.3	5.2
18.1	16.3	13.1	11.4	11.2	7.8	2.9
37.0	34.9	28.9	24.0	19.9	10.0	2.7
9.6	11.3	11.4	12.9	12.7	8.7	2.8
67.3	47.3	26.4	11.8	1.2	—	—
3.0	8.5	7.4	7.7	10.2	4.7	—
151.2	135.9	101.1	80.0	68.5	48.5	13.6
12.4	7.7	8.0	8.5	8.8	4.0	0.5
8.8	8.6	9.5	10.5	10.5	4.0	0.6
8.7	8.6	9.5	10.5	10.5	4.0	0.6†
89.8	64.4	45.1	37.4	20.9	6.0	1.1
0.06	0.06	0.07	0.08	0.08	0.04	0.01
0.63	0.45	0.34	0.28	0.16	0.06	0.01
0.64	0.46	0.35	0.25	0.17	0.10	0.02
0.025	0.02	0.02	0.02	0.01	—	—
126.6	140.2	55.8	50.8	43.1	6.0	1.3
144,220,460	147,486,888	131,139,160	131,838,104	131,882,104	107,080,000	106,440,000







***Adjusted for two-for-one stock splits in April 1998, January 2000 and November 2000.*
†Net income from continuing operations.

OPERATING REVIEW

Providing Industry-Leading Choice

Expanding Distribution

Maintaining Financial Efficiency

Governance

Employee Stock Options

The investment fund industry in Canada has entered a new phase. After a severe market downturn, it is awaiting the return of investor confidence. It has become a mature industry, with a large number of companies in competition for clients. However, it is still an industry with a solid base and attractive prospects for profitable growth. CI is taking advantage of this changing environment to become one of the dominant firms in the business.

CI is accomplishing this through the consistent execution of a long-term strategy to become one of the industry's top companies, complemented by an ability to successfully undertake major strategic initiatives such as acquisitions. The August 2003 agreements to acquire Skylon Capital Corp., Synergy Asset Management Inc., and the Canadian operations of Assante Corporation mean that CI will have made six acquisitions in four years.

CI believes that its ability to integrate acquisitions has become a competitive advantage. The acquisitions of Spectrum Investment Management Limited and Clarica Diversico Ltd., the most significant developments for CI in fiscal 2003, illustrate this point. The two firms were integrated successfully in the face of extremely difficult market conditions.

At the close of the transaction in July 2002, CI received $11.7 billion in mutual and segregated fund assets – an amount equal to 60% of CI's mutual and segregated fund business at the time. These assets consisted of two diverse mutual fund families (Spectrum and Clarica mutual funds) and two segregated fund businesses (Clarica segregated funds and the Sun*Wise* segregated funds).

There were two key factors in making these acquisitions successful.

First, the integration was conducted quickly. Within six weeks of the close of the transaction, CI had transferred the Spectrum unitholder accounts onto the CI administrative system. This allowed CI and the former Spectrum unitholders to switch among the two families of funds and set the stage for the

merger of 33 funds in October 2002, less than three months after the acquisition. The Clarica unitholder accounts were transferred to the CI system in January 2003, and another 45 funds were merged in August 2003.

Second, the acquisitions had a significant positive financial impact on CI during the fiscal year. The rapid integrations allowed CI to exploit the synergies available in the acquisitions, as it moved the Spectrum and Clarica funds onto CI's more efficient operating platform. In an illustration of the benefits of scale in the fund industry, CI increased its assets by 40% through the acquisitions, but increased its employee count by less than 20%. The year-over-year increase in total selling, general and administrative expenses (excluding the stock-based compensation expense recorded in the fourth quarter of fiscal 2003) was kept to about 30% for the fiscal year, in line with the increase in assets and revenues, despite the higher costs of operating the Clarica and Spectrum funds.

For shareholders, nothing more clearly demonstrates the benefit of the acquisitions than the fact that EBITDA per share, excluding the charge taken for all outstanding options, was at the same level as fiscal 2002, even as markets dropped sharply over the same period. Typically, a market drop of this magnitude would have had an even greater effect on profitability, as was evident throughout the rest of the asset management industry.

Providing Industry-Leading Choice

The two most important elements of CI's strategy are the broad selection of funds and the wide choice of leading portfolio managers. CI offers funds that vary by mandate, including asset class, region, industry, and investment approach, and funds that vary by product type, including Class F funds (fee-based), Class I funds (institutional), hedge funds, segregated funds, multi-manager funds and asset allocation products, including the Insight Program and the CI Portfolio Series. Through its funds, CI offers a diverse lineup of in-house and external portfolio managers, representing investment styles from value to growth to momentum.

This broad degree of choice allows financial advisers to meet the needs of virtually all of their clients within CI. For CI, this product offering diversifies its sales, and ensures it is not dependent on any one product or portfolio manager.

As a result of the acquisition of Spectrum and Clarica Diversico, CI gained a broader lineup of mutual and segregated funds and portfolio managers. By changing fund managers and merging mutual funds, CI kept the funds and managers that offered the best fit with CI's existing lineup. Specifically, CI inherited 21 sub-advisory relationships with other investment management firms, and ended 14 of those relationships. Assets were reallocated to other portfolio managers.

However, CI also sought out other leading managers to round out its lineup. CI retained Sionna Investment Managers Inc., a new firm founded by well-known Canadian equity manager Kim Shannon. As a result, Ms. Shannon continued as investment adviser to CI Canadian Investment Fund – a former Spectrum fund that she has managed since 1996, achieving first-quartile results.

CI also hired as sub-advisers John Sartz of Viking Capital Corp. and Ted Whitehead of MFC Global Investment Management (Canada). Both are experienced Canadian small and mid-cap portfolio managers with excellent track records.

The most notable addition to CI's sub-adviser lineup in fiscal 2003 was Bill Miller, portfolio manager of CI Value Trust Fund, launched in August 2002. Mr. Miller, CEO of Legg Mason Funds Management, Inc., is renowned in the U.S. for being the only equity mutual fund manager to have outperformed the S&P 500 Index for 12 consecutive calendar years. As of September 30, 2003, he was well on his way to extending his record for another year, with CI Value Trust Fund outperforming the index by almost nine percentage points for the year-to-date. Mr. Miller's performance has garnered considerable interest in Canada among both retail and institutional investors, with CI Value Trust Fund consistently posting positive net sales. As of September 30, 2003, Mr. Miller managed $833 million on behalf of CI.

Overall, CI has assembled an outstanding roster of investment advisers. For example, CI's three main Canadian equity managers, Eric Bushell, Gerald Coleman and Ms. Shannon, all had first-quartile performance in their flagship funds over the three and five-year periods ending May 31, 2003.

Another indicator of the quality of CI's lineup is the fact that, in fiscal 2003, CI consistently placed first or second for having the most funds with Morningstar Canada's top five-star ranking. At May 31, CI led the industry with 27 five-star funds. CI funds were also recognized at the Canadian Investment Awards in December 2002, where Mr. Coleman's Harbour Fund was named Best Canadian Equity Fund, and Signature Dividend Fund, managed by Mr. Bushell and Ben Cheng, was selected Best Dividend Fund for a second consecutive year.

CANADIAN INVESTMENT AWARDS Winner 2002

Harbour Fund named Best Canadian Equity Fund.

Signature Dividend Fund named Best Dividend Fund.

MORNINGSTAR CANADA

At May 31, 2003, CI led the industry with 27 five-star funds.

CI also took steps to streamline its fund lineup by merging funds with overlapping mandates. This creates larger, more efficient funds, saves the expense of operating two or more funds with similar mandates, and simplifies CI's fund lineup for investors and advisers. CI has merged 78 funds since the acquisitions in July 2002, while maintaining the industry's largest selection of funds. This comprehensive selection of funds and managers constitutes an important competitive advantage for CI.

Expanding Distribution

Distribution has become a critical issue for independent mutual fund companies such as CI. Many brokers and planners, the traditional distributors of CI funds, are placing more emphasis on in-house products, while restricting their relationships with fund companies.

CI has adopted a multi-pronged strategy to address this trend. First, CI's wide selection of funds and investment managers helps to ensure that CI remains one of advisers' top choices in meeting their clients' needs. Second, CI has maintained one of the largest and most experienced sales forces in the industry, despite the sustained decline in the markets in recent years. The one-on-one relationships developed by CI's sales people are crucial in maintaining advisers' business. Third, CI has upgraded the services and support it provides advisers by, for example, investing meaningful amounts in providing training and new technology to its client services and administration departments.

CI has also been active in developing new distribution channels. In 1999, CI established an Institutional Business Development team to build relationships with other financial institutions such as banks and insurance companies that sell third-party funds. This initiative has exceeded expectations. In fiscal 2003, CI established 13 new institutional relationships, bringing the total to 48. Total CI assets held by institutional partners increased 23% during the fiscal year to $1.8 billion, of which $1.3 billion is invested in Class I funds.

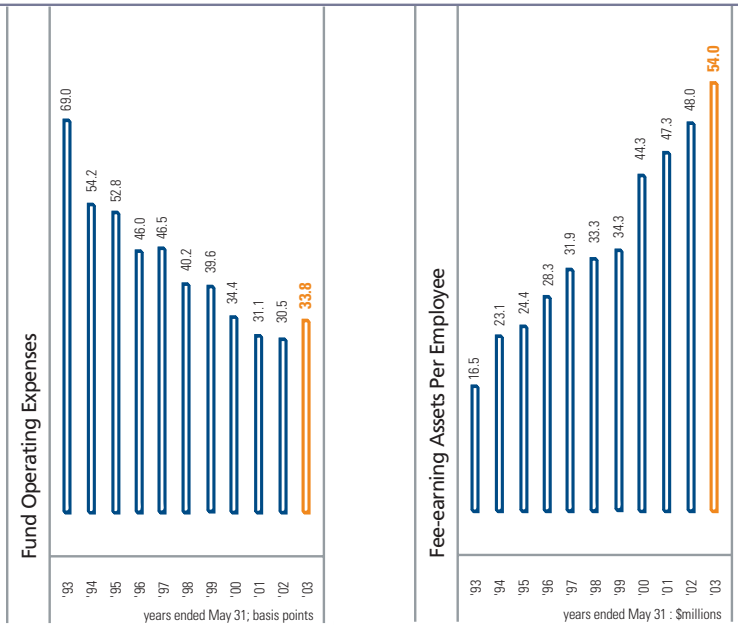
Finally, as part of the acquisition of Spectrum and Clarica Diversico, CI reached an agreement with Sun Life in which CI would become the preferred supplier of wealth management products to the Clarica sales force of 4,000 agents and managers – the largest dedicated sales force in Canada. In fiscal 2003, CI focused on building relationships with the Clarica agents and educating them about CI and its products. The arrangement is already bearing fruit, with Clarica agents posting positive net sales of CI funds of $43.3 million in the last two quarters of fiscal 2003.

CI believes that its preferred access to Clarica agents is an important advantage for CI and that this channel will become an increasingly important long-term contributor to CI's growth in an environment where success depends on cultivating a diversity of distribution channels.

Maintaining Financial Efficiency

CI has become one of the most efficient fund companies in Canada, and this focus on efficiency extends to both CI's corporate operations and the operations of its funds. Being a low-cost operator confers several advantages on the company. First, the lower operating expenses make CI's funds more competitive in the marketplace. Second, it makes it easier for CI to launch new products, as the company is starting from a lower cost base. Third, it enhances CI's ability to acquire other companies and make these acquisitions profitable.

As explained above, the acquisitions of Spectrum and Clarica Diversico contributed to CI's fiscal 2003 results, despite the fact that the acquired firms had significantly higher cost structures. In fiscal 2003, CI's operating margin as a percentage of mutual fund assets under management decreased only slightly, to 1.07% from 1.10%. The overall operating expenses of CI's mutual funds, expressed as a percentage of assets under management, rose just three basis points in fiscal 2003, to 0.34%. However, by the second quarter of fiscal 2004, CI had succeeded in reducing the operating costs of the acquired funds to the same level as other CI funds. This is consistent with CI's track record of continually reducing the operating expenses of its funds, as shown in the nearby chart.



Another measure of CI's efficiency is the amount of fee-earning assets per employee, which has increased every fiscal year since 1993. At May 31, 2003, CI had $54 million in fee-earning assets per employee, up from $48 million a year earlier (adjusted for outsourced operations). CI believes it leads the industry in efficiency and has the best ratio of assets to employees in the industry.

CI has achieved this level of efficiency while also maintaining one of the industry's largest sales forces and top-notch service and support to clients. This accomplishment is the result of strict cost controls in which expenses are actively managed in relation to asset levels, the adoption of new technology, and a corporate culture that values both an entrepreneurial outlook and prudence – the careful stewardship of investors' savings.

Governance

A series of scandals and regulatory investigations in the United States has shone a light on the issue of governance. Well before this, CI had instituted sound governance practices throughout its organization. This is especially critical for CI as a wealth management company, a business in which trust and integrity are paramount. CI also sees this issue as having two related dimensions – the governance of the funds and the governance of the corporation.

First, all employees, officers and directors of CI are governed by CI's Code of Ethics and Conduct, which requires the highest standards of integrity and ethical business conduct and that the interests of investors in CI's funds be placed above personal interests.

For CI's funds, a series of procedures are in place to monitor valuation and portfolio trading on a daily basis. This involves the portfolio management teams, the Fund Valuation Department and the CI Compliance Department, which also monitors personal trading by employees.

The CI Mutual Funds' Board of Governors, established in 1998, provides further oversight in ensuring the fair and proper treatment of the investors in CI funds. The board, which meets quarterly, currently consists of three independent members and one executive officer of CI. The board reviews control

mechanisms, compliance procedures and other matters relating to the funds, while the three independent governors form an Audit Committee that reviews the audits of the funds' operations and of their financial statements.

CI has also advanced good governance at the highest levels of the company. Six of the eight members of the CI Board of Directors are unrelated directors. The Compensation and Audit Committees of the board consist entirely of unrelated directors, as does the Corporate Governance Committee, which was established in fiscal 2003 to ensure that the board operates independently of management. Since 1999, an unrelated director, Mr. Ronald D. Besse, has acted as the Board's Lead Director. Furthermore, the directors as a group hold a significant equity stake in the company, more closely aligning their interests with those of all shareholders.

These measures are second to none within the industry and illustrate the depth of CI's commitment to fostering good governance.

Employee Stock Options

CI believes that employee stock options fulfill the crucial purpose of helping to align the interests of shareholders and management. CI has always used options in a responsible fashion, and currently outstanding options amount to less than 5% of outstanding shares. CI also issues options to a broader group of employees than just the most senior managers.

In the interests of transparency, CI decided to begin recording employee stock options as an expense for the 2003 fiscal year, following the introduction of an appropriate accounting methodology. In the fourth quarter of fiscal 2003, CI amended its Employee Incentive Stock Option Plan to allow employees to elect to receive cash from the company rather than buying shares and selling them into the open market. This amendment applied to any new grants as well as existing options. CI therefore recorded an expense in the fourth quarter of $42.8 million related to options. Please see Management's Discussion and Analysis for more information.

As explained in the President's Letter to Shareholders, CI undertook this amendment to reduce, if not eliminate, the dilution produced by employee stock options, and to ensure that the cost of the options can be treated as a tax-deductible expense.

Conclusion

In fiscal 2003, CI successfully integrated two major acquisitions, using them to build on its strategies for growth and to create shareholder value. CI believes that the expertise its management team has developed in quickly integrating acquired companies has become a competitive advantage, in the same way that CI holds competitive advantages in expanded distribution channels, efficiency of operations, and its broad selection of funds and leading portfolio managers.

Consequently, CI benefited from the pickup in equity markets over the final quarter of fiscal 2003 and the first quarter of 2004. Not only will stronger, more stable markets restore investors' confidence and boost net sales of CI funds, but they will compound the benefits of CI's proposed acquisitions of Skylon, Synergy and Assante Canada.

CI will face many integration challenges in fiscal 2004. However, it will face these challenges from a position of strength and with the benefit of experience. CI is committed to being a leader in the next phase of the industry's growth.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF FINANCIAL HIGHLIGHTS [years ended May 31; millions of dollars except share and per share amounts]

	2003	2002	% change
INCOME STATEMENT DATA			
Revenue			
Management fees	**509.7**	383.0	+33
Administration fees and other income	**16.1**	24.0	-33
Redemption fees	**50.3**	41.1	+22
Performance fees	**0.1**	1.1	-91
Total revenues	**576.2**	449.2	+28
Operating Expenses			
Net selling, general and administrative	**60.5**	16.5	+267
Investment adviser fees	**50.6**	39.8	+27
Trailer fees	**147.4**	97.8	+51
Commission Related Expenses			
Distribution fees to limited partnerships	**6.8**	10.6	-36
Amortization of deferred sales commissions	**169.9**	201.6	-16
Other items	**16.9**	18.9	-11
Minority interest	**4.1**	5.2	-21
Income taxes	**49.0**	22.0	+123
Income before amortization of goodwill	**71.0**	36.8	+93
Net income (loss)	**71.0**	(61.4)	n/a
Earnings per share before amortization of goodwill	**0.32**	0.21	+52
Operating cash flow*	**245.6**	222.8	+10
Operating cash flow* per share	**1.09**	1.27	-14
EBITDA*	**297.4**	265.5	+12
EBITDA* per share	**1.32**	1.51	-13
Dividends per share	**0.29**	0.06	+383
Shareholders' equity, end of year	**632.7**	56.8	+1,014
Shares outstanding, end of year	**235.5**	170.8	+38
ASSET MANAGEMENT DATA			
Average mutual/segregated fund assets under management	**27,306**	20,858	+31
Total fee-earning assets, end of year	**33,084**	25,713	+29
Mutual/segregated fund assets, end of year	**28,586**	20,422	+40
Total gross sales	**4,144**	3,641	+14
Total redemptions	**4,740**	3,160	+50
Total net sales	**(596)**	481	-224

**EBITDA (Earnings before interest, taxes, depreciation and amortization) and operating cash flow are non-GAAP (generally accepted accounting principles) earnings measures, however, management believes that most of its shareholders, creditors, other stakeholders and investment analysts prefer to analyze CI's results based on these performance measures.*

SELECTED QUARTERLY INFORMATION [years ended May 31; millions of dollars except per share amounts]

	2003				2002			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
INCOME STATEMENT DATA								
Revenue								
Management fees	**129.5**	**133.8**	**136.7**	**109.7**	96.6	93.9	92.0	100.5
Administration fees and other income	**2.5**	**3.5**	**2.6**	**7.5**	7.2	5.8	5.2	5.8
Redemption fees	**11.7**	**12.3**	**13.1**	**13.2**	11.1	9.8	10.7	9.5
Performance fees	**0.0**	**0.0**	**0.1**	**0.0**	0.0	0.0	0.7	0.4
Total revenues	**143.7**	**149.6**	**152.5**	**130.4**	114.9	109.5	108.6	116.2
Operating Expenses								
Net selling, general and administrative	**45.0**	**5.5**	**5.4**	**4.6**	3.8	4.3	4.1	4.3
Investment adviser fees	**12.7**	**13.0**	**13.0**	**11.9**	9.9	9.2	10.2	10.5
Trailer fees	**36.3**	**39.3**	**41.1**	**30.7**	24.9	24.1	23.2	25.5
Commission Related Expenses								
Distribution fees to limited partnerships	**1.4**	**1.6**	**1.7**	**2.0**	2.5	2.4	2.6	3.0
Amortization of deferred sales commissions	**26.3**	**46.0**	**50.3**	**47.3**	49.4	51.0	50.9	50.3
Other items	**(3.7)**	**11.6**	**4.8**	**4.3**	7.9	3.6	3.3	4.2
Minority interest	**0.7**	**1.1**	**1.2**	**1.2**	1.2	1.3	1.4	1.4
Income taxes	**14.6**	**9.8**	**13.6**	**10.9**	5.5	4.4	5.4	6.7
Income before amortization of goodwill	**10.4**	**21.7**	**21.4**	**17.5**	9.8	9.2	7.5	10.3
Net income (loss)	**10.4**	**21.7**	**21.4**	**17.5**	(14.8)	(15.3)	(17.1)	(14.3)
Earnings per share before amortization of goodwill	**0.04**	**0.09**	**0.09**	**0.09**	0.06	0.05	0.04	0.06
Earnings (loss) per share	**0.04**	**0.09**	**0.09**	**0.09**	(0.09)	(0.09)	(0.10)	(0.08)
Diluted earnings (loss) per share	**0.04**	**0.09**	**0.09**	**0.09**	(0.09)	(0.09)	(0.10)	(0.08)
EBITDA*	**45.6**	**87.0**	**87.6**	**77.2**	65.7	65.7	65.1	68.9
EBITDA* per share	**0.19**	**0.37**	**0.37**	**0.39**	0.38	0.38	0.37	0.38
Dividends per share	**0.08**	**0.08**	**0.08**	**0.05**	0.03	0.01	0.01	0.01
Average mutual/segregated fund assets under management	**27,675**	**28,765**	**29,079**	**23,756**	20,992	20,827	20,220	21,384

**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 CI's results based on this performance measure.*

OVERVIEW OF CI'S BUSINESS

The principal business of CI Fund Management Inc. ("CI") is the management, marketing, distribution and administration of mutual funds, segregated funds and other fee-earning investment products for Canadian investors through its wholly owned subsidiary CI Mutual Funds Inc. In addition, through its money management subsidiaries, CI manages institutional assets for clients on a global basis. At May 31, 2003, fee-earning assets totalled $33.1 billion, represented by $28.6 billion in mutual and segregated funds, $704 million in labour-sponsored funds, $311 million in closed-end and other funds and $3.5 billion in institutional assets (through BPI Global Asset Management LLP and Trilogy Advisors, LLC). CI markets its funds to Canadian retail investors through over 43,000 financial advisers representing over 2 million retail investment accounts owning CI funds. CI's share of total Canadian mutual fund assets as reported by the Investment Funds Institute of Canada was 7.1% at May 31, 2003, compared with 4.7% 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, 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 2003, CI launched a number of new funds.

In August 2002, CI launched CI Value Trust Sector Fund, which is sub-advised by Bill Miller of Legg Mason Funds Management, Inc. and modelled on the U.S.-based Legg Mason Value Trust, Inc. Miller and his Legg Mason fund are noted for having returns in excess of the S&P 500 for 12 consecutive calendar years.

In August 2002, CI also expanded its lineup by offering new versions of existing funds: CI Canadian Bond Sector Fund, CI Global Bond Sector Fund, Signature Dividend Sector Fund and Signature High Income Sector Fund.

In December 2002, CI launched the Harbour Foreign Growth & Income Sector Fund and the Harbour Foreign Growth & Income RSP Fund to complement other funds under the Harbour banner.

In February 2003, CI expanded its lineup of segregated funds with the launch of Sun*Wise* CI Global Conservative Portfolio, Sun*Wise* CI Global Balanced Portfolio and Sun*Wise* Maximum Growth Portfolio.

In April 2003, CI expanded the lineup of funds sold exclusively through CI's distribution arrangement with Sun Life Financial Inc.'s ("Sun Life") Clarica advisers and managers, with the launch of the Clarica SF CI Canadian Income Portfolio, Clarica SF CI Canadian Conservative Portfolio, Clarica SF CI Global Conservative Portfolio, Clarica SF CI Global Balanced Portfolio, Clarica SF CI Global Growth Portfolio, Clarica SF CI Global Maximum Growth Portfolio, Clarica SF CI Landmark American Fund, Clarica SF CI Global Fund, Clarica SF CI International Balanced Fund and Clarica SF CI Money Market Fund.

As a result of the acquisition of Spectrum Investment Management Limited ("Spectrum") and Clarica Diversico Ltd. ("Diversico") in July 2002, CI's lineup of funds expanded significantly. In order to streamline its lineup, CI eliminated 33 funds in October 2002 by merging them into other funds with similar mandates. Subsequently, in June 2003, CI announced that it would eliminate a further 45 funds by September 2003 through mergers.

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, 2003, CI had sub-advisory agreements with AGF Funds Inc., which managed $23 million; AIC Group of Funds, which managed $13 million; AIM Funds Management Inc., which managed $616 million; Fidelity Investments Canada Limited, which managed $565 million; Howson Tattersall Investment Counsel Ltd., which managed $234 million; Legg Mason Funds Management, Inc., which managed $346 million; MFC Global Investment Management (Canada), which managed $58 million; MFS Institutional Advisors, Inc., which managed $788 million; Sionna Investment Managers Inc., which managed $2,449 million; TD Asset Management Inc., which managed $74 million; UBS Global Asset Management (Canada) Co., which managed $511 million; Viking Capital Corp., which managed $244 million; J. Zechner Associates Inc., which managed $1,825 million; Trident Investment Management, LLC, which managed $441 million; and Steinberg Priest & Sloane Capital Management, LLC, which managed $594 million.

2. CI employs money managers directly. At May 31, 2003, CI managed $12,101 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:

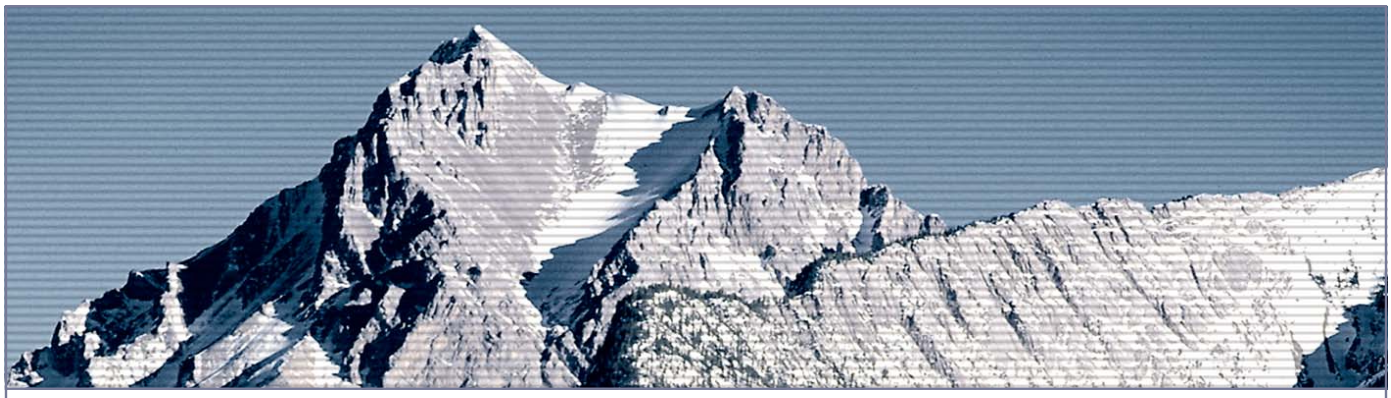
   - CI Global Advisors LLP ("CI Global Advisors") of New York, established in November 1999, is 55% owned by CI and 45% owned by Trilogy Advisors, LLC ("Trilogy Advisors"). CI also has a 45% interest in Trilogy Advisors. CI Global Advisors had mutual fund assets under management at May 31, 2003, of $4,776 million in a number of growth-oriented funds, industry-specific funds and a multi-manager fund. In addition, Trilogy Advisors had $65.9 million in institutional assets (including $16.6 million in institutional hedge fund assets).

   - 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, 2003, it had $1,703 million of growth-oriented mutual fund assets under management, including a portion of two multi-manager funds and $467 million of retail hedge funds, and institutional assets of $3,416 million (including $61.9 million of institutional hedge funds).

   - Webb Capital Management LLP ("Webb Capital Management") of San Francisco, formed in June 2000, is 55% owned by CI and 45% owned by Webb Capital Investors, LLC. At May 31, 2003, it had assets under management of $755 million in several momentum-based growth funds, a multi-manager fund and a hedge fund (which had assets totalling $44 million). CI also has a 25% interest in Webb Capital Partners, LLC of San Francisco, formed in August 2002, whose mandate is to pursue institutional hedge fund assets.

   - 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 $593 million at May 31, 2003, 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, whose mandate is to pursue institutional hedge fund assets.

During the year, a significant number of the sub-advisers listed above became part of CI's lineup of sub-advisers as a result of the acquisition of Spectrum and Diversico. In addition, a number of sub-advisory relationships were terminated, as they were not essential to CI's overall money management relationships. Added as a result of the acquisition were AGF Funds Inc., AIC Group of Funds, AIM Funds Management Inc., Fidelity Investments Canada Limited, Howson Tattersall Investment Counsel Ltd., MFC Global Investment Management (Canada), MFS Institutional Advisors, Inc., Sionna Investment Managers Inc., TD Asset Management Inc., UBS Global Asset Management (Canada) Co., and Viking Capital Corp. Terminated advisors were AMI Partners Inc., Barclays Global Investors Canada Limited, McLean Budden Limited, Mercury Asset Management Canada, Mulvihill Capital Management Inc., Weiss, Peck & Greer, KBSH Capital Management Inc., Mackenzie Financial Corporation, Montrustco Bolton Investments Inc., Natcan Investment Management Inc., Perigee Investment Counsel Inc. and State Street Research & Management Company.



CI FUND ADVISERS

Sub-Advisory

AGF Funds Inc.

AIC Group of Funds

AIM Funds Management Inc.

Fidelity Investments Canada Limited

Howson Tattersall Investment Counsel Limited

Legg Mason Funds Management, Inc.

MFC Global Investment Management (Canada)

MFS Institutional Advisors, Inc.

Sionna Investment Managers Inc.

TD Asset Management Inc.

UBS Global Asset Management (Canada) Co.

Viking Capital Corp.

J. Zechner Associates Inc.

Steinberg Priest & Sloane Capital Management, LLC

Trident Investment Management, LLC

Partnership

Altrinsic Advisors, LLC

BPI Global Asset Management LLP

CI Global Advisors LLP

Webb Capital Management LLP

In-house

Harbour Group

Signature Group

INVESTMENT PRODUCT DISTRIBUTION

CI distributes its investment products through investment dealers, mutual fund dealers, insurance agents, banks and its preferred distribution arrangement with Clarica advisers and managers. 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 in addition to providing product information 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.

In July 2002, in conjunction with the purchase of Spectrum and Diversico, CI entered into a preferred distribution arrangement with Sun Life that covers approximately 4,000 Clarica advisers and managers. The arrangement provides that CI's funds will be the predominant wealth management products sold by Clarica advisers and managers. CI believes that it can develop a successful relationship with the Clarica advisers and managers and increase the sales of CI products through this channel over the long term.

In addition, in fiscal 2003, CI continued to emphasize distribution through third-party channels and entered into 13 new arrangements for the distribution of CI's products.

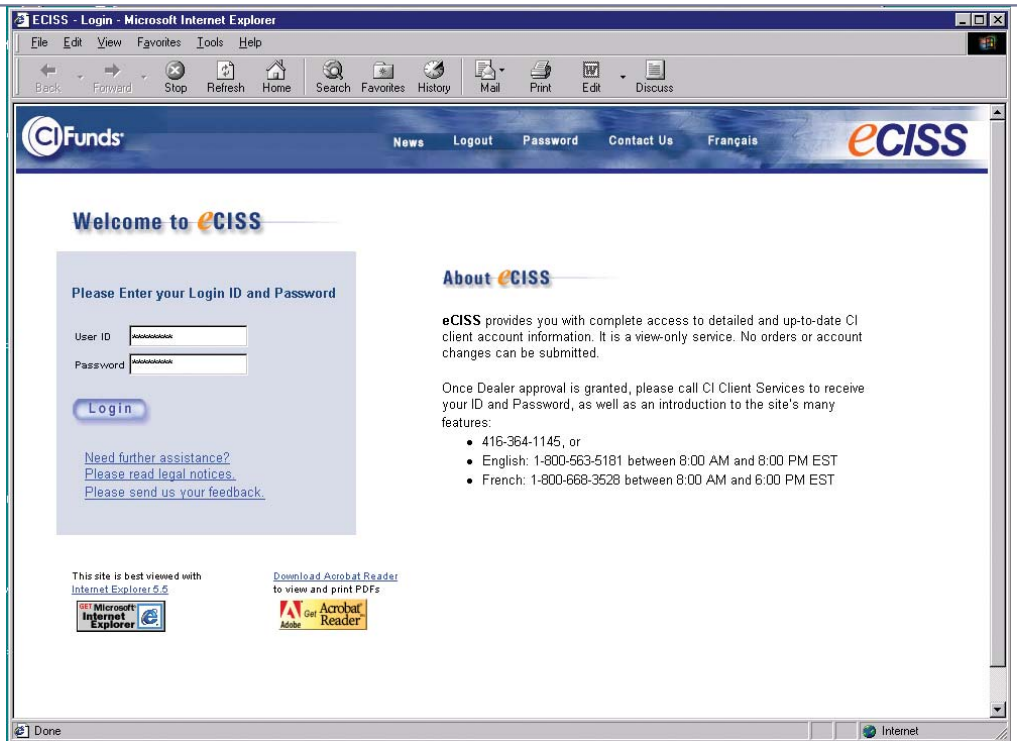
INVESTMENT PRODUCT ADMINISTRATION

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 2002, CI introduced its Internet-based Electronic Client Account Information System (eCISS). It allows advisers and investors to easily access detailed and up-to-date account information and gives them the ability to print trade confirmations, fund annual reports, duplicate account statements and tax receipts.

In fiscal 2003, CI consolidated the Spectrum fund administration onto CI's administrative platform within six weeks of the acquisition. The consolidation of the Diversico fund administration, including all segregated funds, was completed by January 2003. Furthermore, CI completed the merger of 33 funds in October 2002. These activities were critical to ensuring a seamless product offering for CI.

CI made further enhancements to its systems in fiscal 2003, ensuring that CI continues to be one 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 is its ability to quickly provide administrative capacity for new products in a cost-effective manner. 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, a wrap program and group RSPs, as well as managing one of the largest blocks of RESP accounts in Canada. These new products have had the appropriate administrative support to achieve market penetration and have contributed significantly to CI's assets under management.


ECISS - Login - Microsoft Internet Explorer
File Edit View Favorites Tools Help
Back Forward Stop Refresh Home Search Favorites History Mail Print Edit Discuss
CI Funds
News Logout Password Contact Us Français
eCISS
Welcome to eCISS
Please Enter your Login ID and Password
User ID
Password
Login
Need further assistance?
Please read legal notices.
Please send us your feedback.
About eCISS
eCISS provides you with complete access to detailed and up-to-date CI client account information. It is a view-only service. No orders or account changes can be submitted.
Once Dealer approval is granted, please call CI Client Services to receive your ID and Password, as well as an introduction to the site's many features:
416-364-1145, or
English: 1-800-563-5181 between 8:00 AM and 8:00 PM EST
French: 1-800-668-3528 between 8:00 AM and 6:00 PM EST
This site is best viewed with Internet Explorer 5.5
Download Acrobat Reader to view and print PDFs
Done
Internet

OVERVIEW OF CI'S REVENUES

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 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 2.90% 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 2.90%. Approximately 81% of CI's mutual and segregated fund assets are in retail equity funds. CI also offers funds with lower management fees that are designed for 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 one percentage point 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 CI is able to provide cost-efficient service to Class I funds because of the large size of these accounts. At May 31, 2003, there were $120 million and $1,259 million in Class F and Class I funds, respectively, compared with $75 million and $524 million on May 31, 2002.

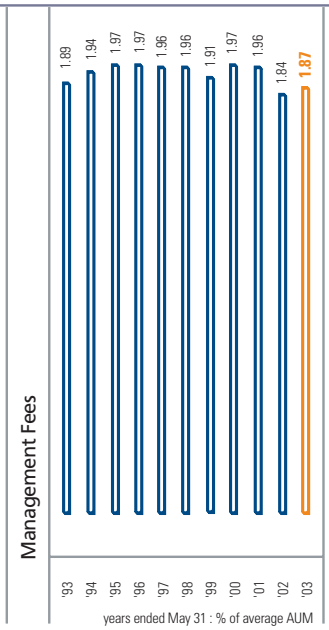
Income potential from sources other than management fees has also become significant. CI manages a number of hedge funds that provide performance fees. In general, the fees amount to 20% of returns in excess of certain thresholds, with CI receiving approximately 40% and the investment adviser and the fund distributor receiving the remainder. At May 31, 2003, CI managed $535 million of hedge fund assets that could potentially earn performance fees.

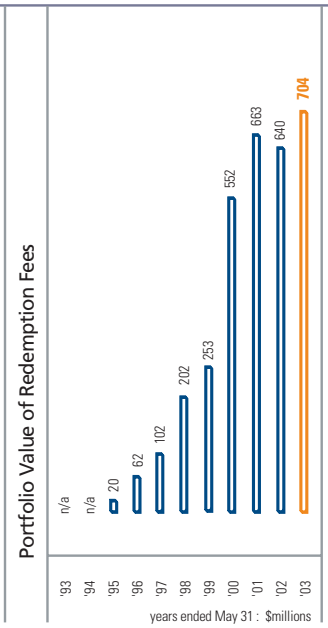
CI's ownership stakes in Trilogy Advisors, BPI Global Asset Management, Altrinsic Global Advisors, LLC and Webb Capital Partners position CI to benefit from the growth in revenues and profits on assets these firms manage for organizations other than CI. At May 31, 2003, BPI Global Asset Management had $3.4 billion in institutional assets ($4.1 billion at May 31, 2002) and Trilogy Advisors had $66 million in institutional assets ($141 million at May 31, 2002). 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 also may earn revenue or incur losses on investments in seed capital in its hedge funds or other strategic investments such as investments in potential candidates for acquisition.

CI recovers most fund-related operating expenses by charging an administration fee to the funds based on actual expenses incurred in the operation of the funds. Effective June 1, 2002, CI has disclosed expenses recovered from funds as a reduction of Selling, General and Administrative (SG&A) expenses. In prior fiscal years, expenses recovered from the funds were reported as revenue in the consolidated statements. CI changed its accounting policy in order to enhance presentation of total SG&A, the portion of total SG&A recovered from funds and SG&A net of expenses recovered from funds. This change in accounting policy, which has been applied retroactively with the restatement of comparative financial information, had no effect on net income (loss).


Management Fees
1.89
1.94
1.97
1.97
1.96
1.96
1.91
1.97
1.96
1.84
1.87
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
years ended May 31 : % of average AUM


Portfolio Value of Redemption Fees
n/a
n/a
20
62
102
202
253
552
663
640
704
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
years ended May 31 : $millions

OVERVIEW OF CI'S EXPENSES

CI is responsible for the administration of the funds and incurs expenses on behalf of the funds. These expenses are reflected in CI's SG&A expenses and are generally recovered from the funds. The amount of expenses recovered from funds is reported as a reduction of total SG&A expenses. The SG&A expense remaining after deducting the expenses recovered from funds is disclosed as net SG&A.

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 net SG&A expenses as referred to above, investment management expenses and trailer fees and selling commissions paid to financial advisers.

Net SG&A expenses are primarily marketing expenses. In general, marketing expenses are managed in proportion to CI's assets under management.

All expenses related to investment management are recorded as investment adviser fees. 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.

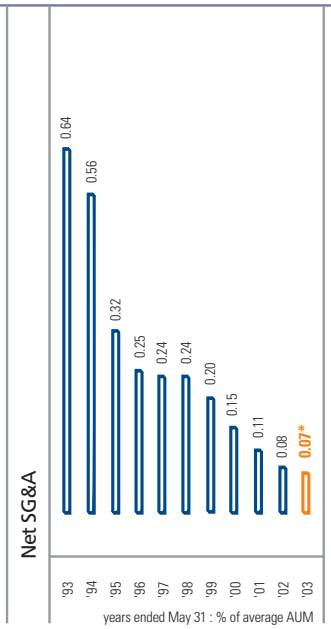
In addition, BPI Global Asset Management, CI Global Advisors, Webb Capital Management and Altrinsic Advisors will generally become more profitable as their assets under management increase. CI, through its equity ownership, participates in the profitability of these companies, effectively reducing its 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.

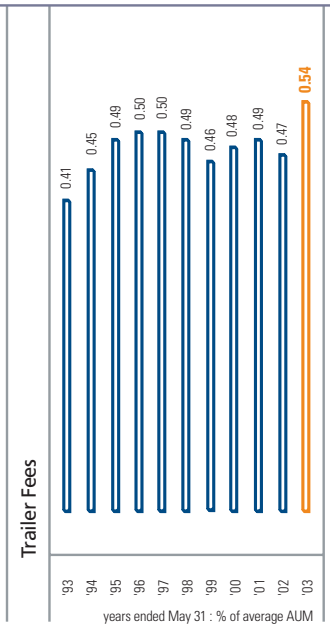
CI monitors its operating profitability by measuring the operating margin calculated as a percentage of average mutual fund assets under management. CI's operating profit margin is defined as management fees from CI's funds less investment adviser fees, trailer fees, and selling, general and administrative 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 analysts prefer to analyze CI's results based on performance measures that include operating profit margin. This measure 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.

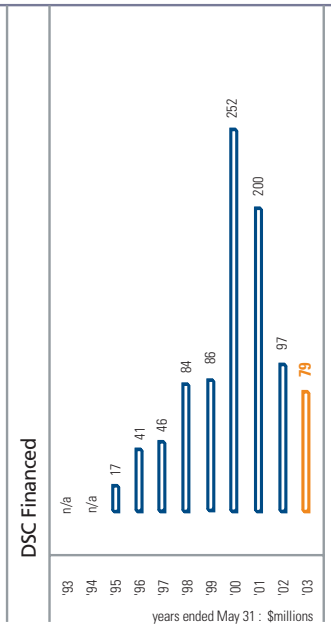
Commissions paid from CI's cash resources on the sale of funds on a deferred sales charge basis are, for financial reporting purposes, amortized evenly over the 36 months immediately following the sale of the funds.

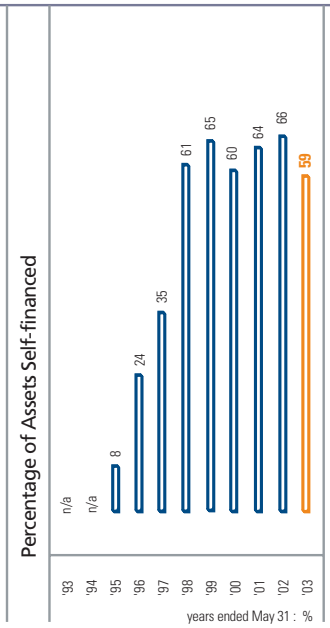
Commissions incurred on certain of CI's assets were financed historically by limited partnerships or securitization vehicles. The expenses for commissions financed by limited partnerships are reported as distribution fees paid to limited partnerships and are calculated as a percentage of the assets.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



*excluding options-related expense







YEAR ENDED MAY 31, 2003 COMPARED WITH YEAR ENDED MAY 31, 2002

Total fee-earning assets (which includes mutual and segregated fund assets as well as Covington Funds, DDJ Canadian High Yield Fund, Insight Program, Keystone Fund assets, BPI Global Asset Management and Trilogy Advisors institutional accounts, VenGrowth Investment Fund I Inc. and ENSIS Growth Fund Inc.) at May 31, 2003, were $33.1 billion, up 29% from $25.7 billion at May 31, 2002. Average mutual and segregated fund assets under management were $27.3 billion in fiscal 2003, an increase of 31% from $20.9 billion in fiscal 2002. 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 increase in CI's assets was directly attributable to the acquisition of $11.7 billion in assets in the Spectrum/Diversico acquisition offset in part by the decline of all major equity markets around the world and net redemptions of CI funds in fiscal 2003. As CI's assets are generally equity funds, any decline in equity markets will have a comparable effect on CI's assets. For the 12-month period ended May 31, 2003, the S&P/TSX Composite Index declined 8.6%, the S&P 500 declined 17.6%, the Dow Jones Industrial Index declined 18.2%, the Nasdaq declined 11.0% and the MSCI World Index declined 18.8%.

Gross sales of the funds were $4.144 billion for the year ended May 31, 2003, compared with $3.641 billion for the same period in 2002. Net sales (gross sales less redemptions) were negative $596 million for the year ended May 31, 2003 – compared with $481 million of net sales for the same period in 2002. The decrease in CI's net sales from 2002 reflected the continuing effects of the significant downturn in equity markets since early 2000. Poor equity market returns over such a prolonged period have eroded investor confidence and resulted in an increased level of funds being withdrawn from equity mutual funds and a reduction in new monies being invested. As a percentage of average assets, gross sales were 15.2% in fiscal 2003, compared with 17.5% in fiscal 2002. Redemptions of CI's funds were $4.740 billion in fiscal 2003, compared with $3.160 billion in fiscal 2002. As a percentage of assets, redemptions were 17.4% in fiscal 2003, compared with 15.1% in fiscal 2002.

Total revenues increased 28.3% to $576.2 million for the year ended May 31, 2003, from $449.2 million for the same period in 2002. Revenues from management fees were $509.7 million for the year ended May 31, 2003, up 33.1% from $383.0 million in 2002. The increase was attributable to the increased assets from the Spectrum/Diversico acquisition which had higher management fees on average than CI's funds. This was offset partly by market-related declines in asset levels and net redemptions of CI's funds, and by 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 1.87% for fiscal 2003, up from 1.84% in fiscal 2002.

Administration fees and other income (which includes investment income, revenues from investment management subsidiaries, administrative fees and interest) decreased from $23.2 million to $21.2 million. The primary contribution to the decrease was the decline in revenues from CI's third-party processing, a business for which the majority of the arrangements had been terminated by mid-2003. In fiscal 2003, the largest contributor to administrative fees and other income was revenue from institutional business at BPI Global Asset Management and Trilogy Advisors of $15.9 million, up slightly from $15.6 million in 2002. Revenues from third-party processing were $4.5 million in fiscal 2003, down from $6.1 million in the prior year as CI had decided not to develop this business.

Redemption fees rose from $41.1 million in fiscal 2002 to $50.3 million in fiscal 2003 as a result of increased redemptions of assets financed from CI's cash resources and redemption fees generated on the Spectrum funds acquired in July 2002.

Performance fees totalled $0.1 million for the year ended May 31, 2003, versus $1.1 million in 2002, as the performance of CI's hedge fund assets were generally below the levels required to generate performance fees.

CI incurred a loss on the sale of marketable securities of $5.0 million in fiscal 2003, compared with a gain in fiscal 2002 of $0.8 million. The loss arose primarily from the sale of marketable securities arising from seed capital investments in certain of CI's funds and from the sale of shares in AGF Management Limited held for investment purposes.

Total SG&A expenses were $152.8 million in fiscal 2003, compared with $80.0 million in fiscal 2002. Included in total SG&A expenses is $42.8 million of compensation expense related to CI's decision to amend the Employee Incentive Stock Option Plan to allow option holders to elect to receive cash from the company rather than purchasing optioned shares that would be sold in the open market. The amendment applied to the existing 11,764,922 options outstanding at April 9, 2003, and future option grants. At May 31, 2003, based on the price of CI shares of $11.90 per share, the potential payment on all options outstanding, including unvested amounts, was $36.7 million. Under accounting rules for options with a cash settlement election, the potential cash payment will be accrued as an expense over the vesting period of the option, adjusted for any actual payments made. As a result, CI recorded an expense in the fourth quarter of fiscal 2003 of $42.8 million, of which $3.5 million was from option holders electing cash settlement, $8.1 million from option holders purchasing optioned shares and $31.2 million representing the liability reported at May 31, 2003, for outstanding vested and on a portion of unvested options. Net of the expense related to options, total SG&A expenses were $110.0 million, up 37.5% from fiscal 2002. The increase in SG&A expenses is attributable to the additional costs absorbed by CI as a result of the acquisition of Spectrum and Diversico funds and is primarily fund operating expenses as described below.

Expenses incurred but recovered as operating expenses of the mutual funds rose 45.2% to $92.2 million for the year ended May 31, 2003, compared with $63.5 million in 2002. As a percentage of assets under management, expenses charged to mutual funds increased slightly from 0.31% in fiscal 2002 to 0.34% in fiscal 2003. The increase in overall expenses resulted from the cost structures inherited in the acquisition of

YEAR ENDED MAY 31, 2003 COMPARED WITH YEAR ENDED MAY 31, 2002 *CONT'D*

Spectrum and Diversico, which were higher relative to assets under management than at CI. The integration of these companies into CI has led to improved operating efficiencies, which have been combined with cuts in general expenses achieved through reductions in staff numbers and in variable costs. The benefits of these cost reductions will not be fully realized until fiscal 2004 as costs of integration become fully amortized. Partially offsetting the efficiencies achieved from the integration of operations was the reduction in asset levels because of market declines and net redemptions, which results in costs being allocated over a smaller base.

Net SG&A expenses were $60.5 million, up from $16.5 million in the prior fiscal year. The increase was due to the $42.8 million option-related expense discussed above. As a percentage of assets under management, the net SG&A expenses increased to 0.22% in fiscal 2003 from 0.08% in fiscal 2002. Excluding the option-related expense, net SG&A expenses was $18.9 million or 0.07% of assets under management in fiscal 2003, compared with $16.5 million or 0.08% in fiscal 2002.

Investment adviser fees increased 27.1% from $39.8 million in fiscal 2002 to $50.6 million in fiscal 2003 due to higher levels of assets under management. As a percentage of average assets under management, investment adviser fees were 0.19% in fiscal 2003, unchanged from 0.19% in fiscal 2002. CI was able to keep the investment adviser fees unchanged at 0.19% of assets under management by eliminating or renegotiating many of the sub-adviser relationships maintained by Spectrum and Diversico that were at higher fee levels than CI's existing arrangements.

Trailer fees increased from $97.8 million to $147.4 million in fiscal 2003. As a percentage of average assets, trailer fees were 0.54% in fiscal 2003, compared with 0.47% in the prior fiscal year. This increase resulted from increased assets under management and from the fact that the Diversico assets were sold predominantly on a front-end basis, where the company does not pay a selling commission but pays a higher trailer fee. The increase was partly offset by an increase in the percentage of CI's mutual fund assets purchased in Class F and Class I funds, which do not pay trailer fees, and from changes in CI's asset mix to a higher proportion of funds with lower trailer fees such as money market and bond funds.

CI's operating margin, as a percentage of average mutual fund assets under management and adjusted for the $42.8 million option expense as discussed above, was 1.07%, down from 1.10% in the prior fiscal year. The decrease resulted from higher trailer fees offset in part by higher management fees and lower net selling, general and administrative expenses.

Distribution fees to limited partnerships totalled $6.8 million, down from $10.6 million in fiscal 2002. As a percentage of average assets, distribution fees to limited partnerships declined from 0.05% to 0.03%, 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 decrease, falling from $201.6 million in fiscal 2002 to $169.9 million in fiscal 2003. The decrease was a result of commissions paid during CI's record sales in fiscal 2000 and fiscal 2001 being amortized during fiscal 2003. Amortization of goodwill from the acquisition of BPI Financial Corporation in August 1999 was nil in fiscal 2003, as goodwill from that acquisition had been fully amortized by May 31, 2002 ($98.3 million in 2002).

Effective June 1, 2002, CI adopted the new accounting standard for goodwill and other intangible assets approved by the Canadian Institute of Chartered Accountants. Under this standard, goodwill – representing the excess of the purchase price over the fair value of the net assets acquired in business combinations – and other intangible assets with indefinite life are no longer amortized after May 31, 2002, but will be subject to, at least annually, an impairment review to ensure that the fair value remains greater than or equal to the book value of these assets. Any excess of book value over fair value will be charged to income in the period in which the impairment is determined. At May 31, 2003, CI had recorded goodwill of $329.7 million and fund management contracts of $432.6 million on its consolidated balance sheets. The company completed its impairment test at year-end and determined that no adjustment was required.

Other expenses fell from $15.7 million in fiscal 2002 to $11.4 million in fiscal 2003. Other expenses should be viewed in conjunction with revenues recognized under administration fees and other income of $21.2 million. The primary contributors to other expenses were expenses associated with CI's institutional business, which rose from $8.9 million in fiscal 2002 to $9.0 million in fiscal 2003, and expenses attributable to CI's third-party back-office processing, which fell to $1.5 million in fiscal 2003 from $2.4 million in the prior year. In fiscal 2003, the majority of CI's third-party processing arrangements had been terminated and no significant income or expenses of this type is anticipated going forward. In addition, CI incurred expenses of $3.6 million related to general corporate expenses in fiscal 2002, which declined to $0.9 million in fiscal 2003.

Minority interest in CI's earnings was $4.1 million for the year ended May 31, 2003, compared with $5.2 million in 2002. 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. The earnings to which minority interest applies is the revenues of $15.9 million recorded in administration fees and other income less expenses of $9.0 million recorded in other expenses as described above, which results in $6.9 million of earnings before minority interest related to CI's institutional business.

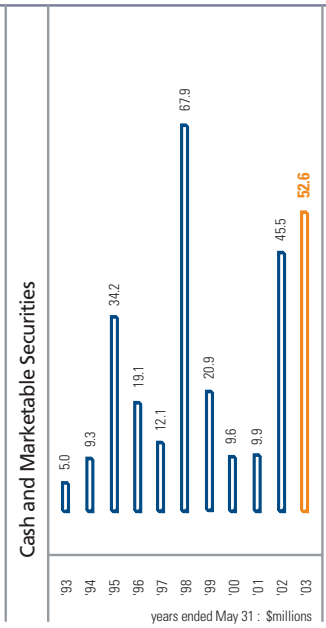
YEAR ENDED MAY 31, 2003 COMPARED WITH YEAR ENDED MAY 31, 2002 *CONT'D*

The provision for income taxes for the year ended May 31, 2003 reflects an effective tax rate of 40.8% versus 37.4% in the prior year. This year, CI expensed $8.1 million of stock-based compensation, which is not deductible for tax purposes, and the $5.0 million loss on sale of marketable securities is only 50% deductible. These two items pushed the effective tax rate up from CI's statutory tax rate of 37.8% this year, which was down from 40.2% in 2002. Last year, reductions in future statutory tax rates resulted in the lower effective rate.

Income before amortization of goodwill for the year ended May 31, 2003, was $71.0 million ($0.32 per share or $0.31 per diluted share), compared with $36.8 million ($0.21 per share or $0.20 per diluted share) in 2002. The increase reflects CI's higher assets under management, which increased operating profitability, offset partly by the $42.8 million pre-tax expense related to options ($30.8 million after tax). After amortization of goodwill, CI had a net income of $71.0 million for the year ended May 31, 2003, compared with a net loss of $61.4 million for the year ended May 31, 2002. Net income in fiscal 2003 adjusted to eliminate the effect of the option expense was $101.8 million ($0.45 per share and $0.45 per diluted share). Though expenses relating to options will continue to be disclosed as part of SG&A expenses, the expense taken in the fourth quarter of fiscal 2003 includes a nonrecurring $36.0 million pretax expense when CI amended its employee stock compensation plan to introduce a cash settlement option.

For the year ended May 31, 2003, earnings before interest, taxes, depreciation and amortization (EBITDA) totalled $297.4 million ($1.32 per share or $1.30 per diluted share). This compares with $265.5 million ($1.51 per share or $1.46 per diluted share) in the prior fiscal year. EBITDA in fiscal 2003, adjusted to eliminate the effect of the option expense for the reason as described above, was $339.1 million ($1.51 per share or $1.48 per diluted share). 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 2003, CI granted 1.9 million stock options to employees and directors of the company. An estimate of the value of the options issued over their five-year life based on the projection of the average option life and corresponding stock volatility along with current dividend and interest rate assumptions is approximately $4.3 million or 1.4% of fiscal 2003 EBITDA. This estimate of $4.3 million is not reflected in the financial statements. As CI accounts for its stock options as a liability reflecting their cash-settlement feature, the actual expense will be determined by the price at exercise less the strike price which may be more or less than $4.3 million. If option holders elect a cash payment for their options, the payment will be deductible for tax purposes based on current applicable tax laws.


Cash and Marketable Securities
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
5.0
9.3
34.2
19.1
12.1
67.9
20.9
9.6
9.9
45.5
52.6
years ended May 31 : $millions

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 2003, CI financed $78.9 million in sales commissions with its own cash resources, down from $97.2 million in fiscal 2002. In addition, CI used $104.2 million to repurchase 10.1 million common shares of CI Fund Management Inc. at an average price of $10.30 per share. This compares with $139.3 million used to repurchase 11.9 million common shares at an average price of $11.66 per share in fiscal 2002. On May 31, 2003, the closing price of CI Fund Management Inc. was $11.90 per common share.

CI also had net purchases of marketable securities in the amount of $12.9 million, resulting in total marketable securities of $50.8 million at May 31, 2003. The majority of marketable securities is represented by 5.6 million shares of Assante Corporation, an investment made for strategic purposes. At May 31, 2003, this investment had an unrealized gain of $2.8 million.

In fiscal 2003, CI also paid $64.7 million in dividends to holders of CI common shares.

These funding requirements were met by cash, short-term investments and marketable securities of $45.5 million at May 31, 2002, cash provided by operating activities in fiscal 2003 of $177.8 million, the issuance of 3.6 million common shares of CI Fund Management Inc. from the exercise of stock options at an average price of $3.90 per share for total gross proceeds of $14.2 million, and the use of CI's $250 million line of credit with a Canadian chartered bank.

At May 31, 2003, CI had cash and marketable securities totalling $52.6 million, and $106 million available under the $250 million line of credit ($144 million drawn at an average all in cost of 3.6%).

At May 31, 2003, 59% of CI's mutual fund assets had been financed with CI's internal cash resources. These assets had a current redemption value of $704 million ($2.99 per share) at May 31, 2003, compared with $640 million ($3.75 per share) at May 31, 2002. At May 31, 2003, 3.7% of CI's assets were financed by limited partnerships, down from 8.0% at May 31, 2002. Assets sold on a front-end-load basis were 44.2% of mutual fund assets under management at May 31, 2003, up from 26.4% in the prior year.

Capital expenditures incurred during the year ended May 31, 2003, 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 2003, as in prior years, 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 13 – "Lease Commitments" in the Notes to the Consolidated Financial Statements.

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 U.S. dollar-denominated hedge funds of CI's money management subsidiaries. At May 31, 2003, no currency hedges were in place. 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. The existing loan agreement provides CI with the option of fixing interest rates, should CI change its view on its exposure to rising interest rates.

On May 22, 2002, CI entered into an agreement to acquire Spectrum and Diversico, the mutual fund subsidiaries of Sun Life.

In exchange, Sun Life 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 received preferred access for its products to more than 4,000 Clarica advisers and managers.

The transaction also includes a standstill period under which Sun Life will not increase its stake in CI beyond 34% for three years, subject to certain exceptions. Sun Life also entered into a shareholders' agreement with certain management shareholders, which, among other things, provided Sun Life 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 has been 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 from synergies achieved in the merger of the three companies' operations.

QUARTER ENDED MAY 31, 2003 COMPARED WITH QUARTER ENDED MAY 31, 2002

Average mutual and segregated fund assets were $27.7 billion for the quarter ended May 31, 2003, up 31.9% from $21.0 billion for the fourth quarter of the prior year and up from the $27.3 billion average for fiscal 2003. At May 31, 2003, mutual and segregated fund assets were $28.6 billion and total fee-earning assets were $33.1 billion. The increase from the prior year was attributable to the acquisition of $11.7 billion in assets from Spectrum and Diversico, partly offset by market declines and net redemptions during fiscal 2003. Market appreciation during the fourth quarter of fiscal 2003 accounted for the increase in assets at quarter-end compared with the average assets for the quarter.

Total revenues for the quarter ended May 31, 2003, were $143.7 million, compared with $114.9 million in the prior year. The increase was primarily a result of the increase in management fee revenue from $96.6 million to $129.5 million for the quarter ended May 31, 2003. The primary contributor to this increase was the increase in average assets as described above. As a percentage of assets under management, management fee revenue was 1.86% up from 1.82% in the prior year.

SG&A expenses increased from $20.0 million in fiscal 2002 to $69.0 million in fiscal 2003. Of the increase, $42.8 million was in conjunction with the option-related expense as described under "Year ended May 31, 2003 compared with year ended May 31, 2002." Net of this expense, the increase on a year-over-year basis was $6.2 million, which arose from the additional costs associated with acquiring the Spectrum/Diversico funds.

Of the total SG&A expenses, the portion represented by expenses recovered from mutual funds increased by 48.1% to $24.0 million in fiscal 2003 from $16.2 million in fiscal 2002. The increase in fund operating expenses reflects the ongoing costs related to the Spectrum/Diversico funds, which had less efficient cost structures than CI's funds.

Net SG&A expenses increased from $3.8 million in fiscal 2002 to $45.0 million in fiscal 2003. The increase is due to the option expense as described above.

Investment adviser fees increased from $9.9 million to $12.7 million for the quarter ended May 31, 2003, reflecting higher assets under management. However, as a percentage of assets under management, these fees declined from 0.19% to 0.18%, reflecting efficiencies gained through the consolidation of investment advisory relationships throughout fiscal 2003.

Trailer fees increased from $24.9 million to $36.3 million in the quarter ended May 31, 2003, reflecting the increase in mutual fund assets under management and the higher proportion of front-end-load assets that pay higher trailer fees resulting from the acquisition of the Diversico funds. This was partly offset by the increased proportion of Class I funds and Class F funds that do not pay trailer fees. As a percentage of assets, trailer fee expenses rose from 0.47% to 0.52%.

Overall, CI's operating profit margin (net of the cost of expensing options as described above), defined as management fees less net SG&A, investment adviser fees and trailer fees, calculated as a percentage of average mutual fund assets under management, was 1.11% for the quarter ended May 31, 2003, compared with 1.10% for the quarter ended May 31, 2002. The change was a result of higher management fees, lower investment adviser and net selling, general and administrative expenses, offset partly by higher trailer fees.

Distribution fees to limited partnerships were $1.4 million for the quarter ended May 31, 2003, compared with $2.5 million in the prior year. The reduction reflects the lower level of the assets financed by limited partnerships. As a percentage of assets, this expense was 0.02%, compared with 0.05% in the prior year.

Amortization of deferred sales commissions was $26.3 million for the quarter, down 46.8% from $49.4 million in the prior year, reflecting the decreased level of unamortized deferred sales charges from the prior year's sales.

During the fourth quarter, CI adjusted the value of marketable securities upwards by $7.5 million, reversing a downward adjustment of $7.5 million in the third quarter of fiscal 2003. The adjustment reflected the increase in the value of the shares of Assante Corporation.

Income taxes for the quarter were $14.6 million, compared with $5.5 million in the prior year. The non-deductible stock-based compensation expense of $8.1 million recorded in the fourth quarter of fiscal 2003 had the effect of increasing the effective tax rate on the provision for income taxes to 58.6% from the statutory rate of 37.8%. In the prior fiscal year, income tax rate reductions affected the future income tax provision and reduced the 40.2% statutory tax rate to an effective rate of 35.8% for the quarter.

Income before amortization of goodwill was $10.4 million ($0.04 per share and $0.04 per diluted share) for the quarter ended May 31, 2003, compared with $9.8 million ($0.06 per share and $0.06 per diluted share) in the prior year.

Net income for the quarter was $10.4 million ($0.04 per share and $0.04 per diluted share), compared with a net loss of $14.8 million ($0.09 per share and $0.09 per diluted share) in the prior year.

Net income, adjusted for the option expense for reasons as disclosed under "Year ended May 31, 2003 compared with year ended May 31, 2002," was $41.2 million ($0.18 per share or $0.17 per diluted share).

During the quarter ended May 31, 2003, earnings before interest, taxes, depreciation and amortization (EBITDA) totalled $45.6 million ($0.19 per share and $0.19 per diluted share), compared with $65.7 million ($0.38 per share or $0.37 per diluted share) in the prior year. EBITDA,

QUARTER ENDED MAY 31, 2003 COMPARED WITH QUARTER ENDED MAY 31, 2002 *CONT'D*

adjusted for the option expense as described above, was $87.3 million ($0.37 per share and $0.37 per diluted share).

Sales commissions paid for the quarter totalled $24.2 million, compared with $25.8 million in the prior year.

Net redemptions for the quarter ended May 31, 2003, were $320.4 million, compared with $56.3 million in net sales 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.

OUTLOOK

In other developments, equity markets have improved considerably in recent months, which has resulted in an increase in CI's assets under management. CI's revenues are directly related to the level of assets under management. Though CI has experienced net redemptions of mutual funds over the past 12 months, management believes that continued gains by equity markets will lead to improved sales of equity mutual funds, including CI's funds. Over most of fiscal 2003, CI has led the industry in having the most funds with Morningstar Canada's top five-star rating. CI believes this positions its products well among fund distributors should investors increase their level of investing in mutual funds. Notwithstanding the benefit of new sales, an appreciation in the market value of CI's funds has a greater impact on the company's level of assets and its profitability.

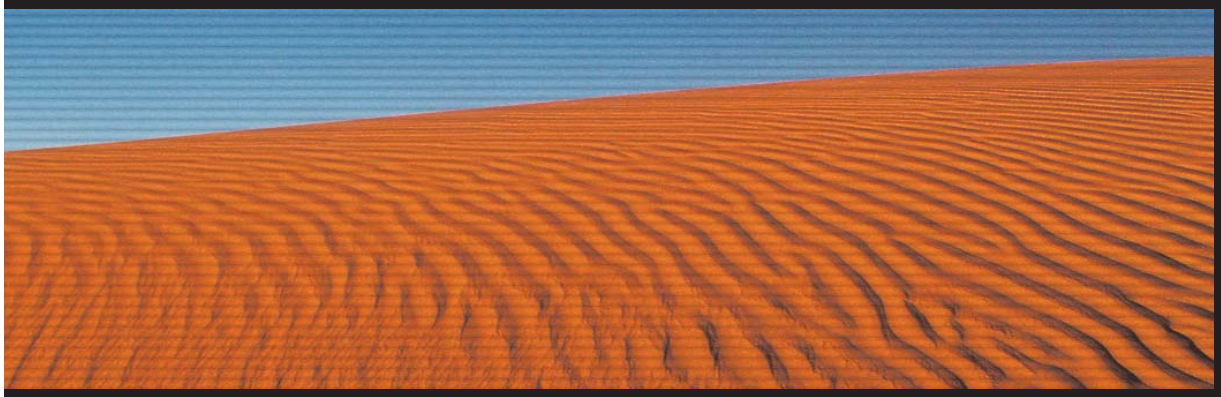
Operationally, CI has positioned the company to take advantage of favourable market conditions by consolidating investment managers, streamlining CI's fund lineup and focusing on managing operations efficiently to lower corporate and fund operating expenses.

In other matters, the Board of Directors declared a dividend of $0.10 per share payable on September 15, 2003, to shareholders of record on September 1, 2003. The increased dividend reflects continuing strength in CI's profitability and cash flow.

In addition, on July 15, 2003, CI changed its accounting estimate for the period of amortization of deferred sales commissions from 36 months to 84 months commencing on June 1, 2003. The revised estimate period has been determined by management to be consistent with the period over which CI currently benefits from the sales commissions paid. The revision will also improve the comparability of CI's financial results with other companies. The change does not impact the underlying economics of CI's business. For the year ended May 31, 2004, the estimated effect of this change will be to reduce the level of amortization of deferred sales commissions by $46 million from $90 million to $44 million.

During fiscal 2003, stock options for the period from June 1, 2002, to April 8, 2003, were share-settled options. For the first three quarters of fiscal 2003 and the period up to April 8, 2003, the diluted earnings per share were calculated using the treasury stock method. For the period from April 9 to May 31, 2003, there is no dilution because the potential expense from stock options is recorded as a liability. This will be the case for all future periods. The calculation of diluted earnings per share for the fourth quarter is based on a pro-rated "diluted" weighted average number of shares using the treasury method for the first 39 days and basic shares outstanding for the remaining 53 days.

CONSOLIDATED FINANCIAL STATEMENTS



MANAGEMENT'S REPORT TO SHAREHOLDERS

Management of CI 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 Canadian 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 27, 2003

AUDITORS' REPORT

To the Shareholders of **CI Fund Management Inc.**

We have audited the consolidated balance sheets of **CI Fund Management Inc.** as at May 31, 2003 and 2002 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, 2003 and 2002 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 27, 2003.

CONSOLIDATED BALANCE SHEETS [as at May 31]

	2003 $	2002 $
ASSETS		
Current		
Cash	**1,772,656**	3,108,213
Marketable securities	**50,788,797**	42,437,124
Accounts receivable and prepaid expenses *[note 10(c)]*	**41,142,612**	16,959,402
Income taxes recoverable	**6,090,261**	—
Future income taxes *[note 12]*	**9,932,515**	—
Total current assets	**109,726,841**	62,504,739
Capital assets *[note 7]*	**4,689,606**	2,627,477
Deferred sales commissions, net of accumulated amortization of $233,003,259 [2002 - $323,507,788]	**145,876,201**	221,892,159
Fund management contracts *[note 4]*	**432,581,803**	—
Goodwill *[note 4]*	**329,679,621**	—
Other assets *[note 8]*	**3,095,932**	3,717,211
	1,025,650,004	290,741,586
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 11]*	**42,013,437**	32,486,690
Income taxes payable	**—**	36,520,643
Stock-based compensation *[note 10(b)]*	**31,223,138**	—
Current portion of long-term debt *[notes 2 and 9]*	**24,000,000**	13,750,000
Total current liabilities	**97,236,575**	82,757,333
Deferred lease inducements	**3,212,731**	1,656,425
Long-term debt *[notes 2 and 9]*	**120,000,000**	68,750,000
Future income taxes *[note 12]*	**169,653,419**	77,643,569
Total liabilities	**390,102,725**	230,807,327
Minority interest	**2,822,340**	3,174,090
Shareholders' equity		
Share capital *[note 10(a)]*	**938,657,151**	293,449,762
Deficit	**(305,932,212)**	(236,689,593)
Total shareholders' equity	**632,724,939**	56,760,169
	1,025,650,004	290,741,586

See accompanying notes

On behalf of the Board:

William T. Holland
Director

G. Raymond Chang
Director

CONSOLIDATED STATEMENTS OF INCOME [LOSS] AND DEFICIT [years ended May 31]

	2003 $	2002 $
REVENUE *[note 2]*		
Management fees	**509,651,425**	382,991,534
Administration fees and other income	**21,159,447**	23,185,505
Redemption fees	**50,251,351**	41,118,274
Performance fees	**111,522**	1,115,281
Gain (loss) on sale of marketable securities	**(4,970,961)**	805,607
	576,202,784	449,216,201
EXPENSES		
Selling, general and administrative *[notes 2 and 10(b)]*	**152,765,682**	80,043,551
Less: expenses recovered from funds *[note 2]*	**92,243,688**	63,535,689
Net selling, general and administrative	**60,521,994**	16,507,862
Investment adviser fees	**50,573,884**	39,790,637
Trailer fees	**147,421,957**	97,772,685
Distribution fees to limited partnerships *[note 5]*	**6,771,744**	10,558,014
Amortization of deferred sales commissions	**169,939,590**	201,554,618
Interest *[note 9]*	**5,494,715**	3,334,278
Other	**11,411,569**	15,716,797
	452,135,453	385,234,891
Minority interest	**4,085,529**	5,198,447
Income before income taxes and amortization of goodwill	**119,981,802**	58,782,863
Provision for income taxes *[note 12]*		
Current	**94,628,158**	43,766,624
Future	**(45,638,097)**	(21,809,622)
	48,990,061	21,957,002
Income before amortization of goodwill	**70,991,741**	36,825,861
Amortization of goodwill *[note 2]*	**—**	98,270,449
Net income (loss) for the year	**70,991,741**	(61,444,588)
Deficit, beginning of year	**(236,689,593)**	(45,699,810)
Cost of shares repurchased in excess of stated value *[note 10(a)]*	**(75,495,446)**	(118,914,427)
Dividends declared	**(64,738,914)**	(10,630,768)
Deficit, end of year	**(305,932,212)**	(236,689,593)
Earnings per share before amortization of goodwill	**0.32**	0.21
Diluted earnings per share before amortization of goodwill *[note 10(d)]*	**0.31**	0.20
Earnings (loss) per share	**0.32**	(0.35)
Diluted earnings (loss) per share *[note 10(d)]*	**0.31**	(0.35)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS [years ended May 31]

	2003 $	2002 $
OPERATING ACTIVITIES		
Net income (loss) for the year	**70,991,741**	(61,444,588)
Add (deduct) items not involving cash		
Loss (gain) on sale of marketable securities	**4,970,961**	(805,607)
Amortization of capital assets and deferred lease inducements	**2,006,988**	100,126,519
Amortization of deferred sales commissions	**169,939,590**	201,554,618
Stock-based compensation	**39,283,439**	—
Minority interest	**4,085,529**	5,198,447
Future income taxes	**(45,638,097)**	(21,809,622)
Operating cash flow	**245,640,151**	222,819,767
Net change in non-cash working capital balances related to operations	**(67,801,775)**	39,517,370
Cash provided by operating activities	**177,838,376**	262,337,137
INVESTING ACTIVITIES		
Additions to capital assets	**(253,672)**	(666,684)
Purchase of marketable securities	**(57,676,984)**	(65,910,415)
Proceeds on sale of marketable securities	**44,773,930**	30,139,775
Sales commissions	**(78,923,632)**	(97,243,814)
Dispositions of other assets	**823,254**	1,146,423
Cash acquired on acquisition of Spectrum Investment Management Limited and Clarica Diversico Ltd., net of transaction costs *[note 4]*	**9,743,775**	—
Cash used in investing activities	**(81,513,329)**	(132,534,715)
FINANCING ACTIVITIES		
Long-term debt *[note 9]*	**61,500,000**	21,500,000
Repurchase of share capital *[note 10(a)]*	**(104,176,733)**	(139,289,860)
Issuance of share capital *[note 10(a)]*	**14,192,322**	7,291,563
Distributions to minority interest	**(4,437,279)**	(5,605,705)
Dividends paid to shareholders	**(64,738,914)**	(10,630,768)
Cash used in financing activities	**(97,660,604)**	(126,734,770)
Net increase (decrease) in cash during the year	**(1,335,557)**	3,067,652
Cash, beginning of year	**3,108,213**	40,561
Cash, end of year	**1,772,656**	3,108,213
Operating cash flow per share	**1.09**	1.27
Diluted operating cash flow per share *[note 10(d)]*	**1.08**	1.22
Supplemental cash flow information		
Interest paid	**5,421,172**	3,009,295
Income taxes paid	**139,509,265**	6,249,789

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

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 CI 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 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 Advisors, LLC are accounted for using the equity method. Accordingly, the Corporation's proportionate share of earnings is included in income. During fiscal 2003, the Corporation disposed of its investment in Altus Hedge Partners International Inc.

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 services are provided under contractual arrangements.

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.

Performance fees are recognized when performance thresholds have been satisfied and management is assured of their realization.

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.

Fund management contracts and goodwill

Effective June 1, 2002 (note 2), fund management contracts and goodwill are recorded at cost less any write-down for impairment. Fund management contracts are not amortized as they were determined to have an indefinite useful life. The Corporation evaluates the carrying values of fund management contracts and goodwill for potential impairment based on estimated discounted future cash flows. These evaluations are performed on an annual basis, or more frequently if events or changes in circumstances indicate a potential impairment. 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 amortization. These assets are 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 inducements

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

Stock-based compensation

The Corporation has a stock-based compensation plan, which as described in note 10[b] includes a cash settlement option. Effective June 1, 2002 (note 2), compensation expense is recognized and recorded as a liability based upon the intrinsic value of outstanding stock options as at the balance sheet date

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

and the proportion of their vesting periods that have elapsed. On the exercise of stock options for shares, the liability recorded with respect to the options and consideration paid by the employees are 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, 2003, which had a market value of approximately $52.2 million.

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. Prior to the amendment of the employee incentive stock option plan to introduce a cash settlement option, diluted per share amounts were determined by adjusting the weighted average number of shares outstanding for the dilutive effect of stock options. Subsequent to the amendment, there is no dilutive effect as the Corporation accounts for its stock options as a liability.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the consolidated financial statements and the reported amounts of certain revenue and expenses during the reporting year. Actual results could differ from those estimates.

2. CHANGES IN ACCOUNTING POLICIES

Goodwill and other intangible assets

Effective June 1, 2002, the Corporation adopted new accounting recommendations for Goodwill and Other Intangible Assets on a prospective basis. These recommendations require that intangible assets with an indefinite life and goodwill not be amortized and that they be tested for impairment on at least an annual basis. If goodwill had not been amortized in fiscal 2002, net loss for the year ended May 31, 2002 would have been reduced by the amortization expense of $98,270,449.

Stock-based compensation

Effective June 1, 2002, the Corporation adopted new accounting recommendations for Stock-Based Compensation and Other Stock-Based Payments on a prospective basis. In prior years, no compensation expense was recognized when stock or stock options were issued to employees under the Corporation's employee incentive stock option plan.

As described in note 10[b], the Corporation amended the terms of its plan in fiscal 2003 to introduce a cash settlement option. The application of the new accounting recommendations to the Corporation's amended plan had the effect of decreasing net income for the year ended May 31, 2003 by $30,823,294.

Expenses recovered from funds

Effective June 1, 2002, the Corporation has disclosed expenses recovered from funds as a reduction of selling, general and administrative expenses ["SG&A"]. In prior fiscal years, expenses recovered from funds were reported as revenue in the consolidated financial statements. The Corporation has changed its accounting policy in order to enhance presentation of total SG&A, the portion of total SG&A recovered from funds, and SG&A net of expenses recovered from funds. This change in accounting policy, which has been applied retroactively with restatement of comparative financial information, had no effect on net income (loss) or shareholders' equity for the years ended May 31, 2003 and 2002.

Balance sheet classification of debt obligations

Effective June 1, 2002, the Corporation adopted new accounting recommendations for the balance sheet classification of debt obligations. In prior years, debt described in note 9 was classified entirely as long-term on the basis that amounts are borrowed under a revolving loan facility, extendible annually. The new recommendations require that the portion of the debt that will be payable within one year of the balance sheet date, in the event that the bank does not extend the term of the facility, be classified as a current liability. This change in accounting policy, which has been applied retroactively with restatement of comparative financial information, had no effect on net income (loss) or shareholders' equity for the years ended May 31, 2003 and 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

3. 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 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 5 and 6).

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 are based on the net asset value of the underlying securities of the Funds and are payable monthly or quarterly.

4. ACQUISITION OF SPECTRUM INVESTMENT MANAGEMENT LIMITED AND CLARICA DIVERSICO LTD.

On July 25, 2002, the Corporation acquired all of the outstanding shares of Spectrum Investment Management Limited ["Spectrum"], the mutual fund management subsidiary of Sun Life Assurance Company of Canada and Clarica Diversico Ltd. ["Diversico"], the mutual fund management subsidiary of Clarica Life Insurance Company. The acquisition was accounted for using the purchase method and the results of operations have been consolidated from the date of acquisition.

Details of the net assets acquired, at fair value, are as follows:

	$
Cash	10,132,812
Fund management contracts	432,581,803
Other assets	23,760,544
Future income taxes	(127,715,432)
Other liabilities	(16,414,258)
Goodwill on acquisition	329,679,621
	652,025,090

Details of the consideration given, at fair value, are as follows:

	$
Shares [71,217,055 common shares]	651,636,053
Transaction costs	389,037
	652,025,090

The common shares of the Corporation issued as consideration were valued at $9.15 per share, the weighted average price on July 24, 2002.

The goodwill on acquisition is not deductible for income tax purposes.

Immediately following the acquisition, Spectrum and Diversico were amalgamated into CIMF.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

5. 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, 2003, the net asset value of securities of the Funds financed by the limited partnerships was $1,047 million [2002 - $1,612 million].

6. 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 totalling 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.

7. CAPITAL ASSETS

Capital assets consist of the following:

	2003		2002	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	**$**	$	$
Computer hardware and software	**17,004,396**	**15,694,047**	15,278,599	14,215,889
Office equipment	**5,150,749**	**4,223,637**	4,597,457	3,503,316
Leasehold improvements	**5,508,632**	**3,297,763**	3,257,827	3,050,208
Property	**345,372**	**104,096**	345,372	82,365
	28,009,149	**23,319,543**	23,479,255	20,851,778
Less accumulated amortization	**23,319,543**		20,851,778	
Net book value	**4,689,606**		2,627,477	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

8. OTHER ASSETS

Other assets consist of the following:

	2003	2002
	$	$
Investment in limited partnership	**1,453,985**	1,672,922
Investment in BGAM-managed funds	**1,438,415**	1,412,427
Contingency fund deposits	**40,000**	30,000
Other	**163,532**	601,862
	3,095,932	3,717,211

9. LONG-TERM DEBT

The Corporation has arranged a revolving credit facility with a Canadian chartered bank for general corporate purposes for $250 million. 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.

Loans are made by the bank under a 364-day revolving credit facility, the term of which may be extended annually at the bank's option. If the bank elects not to extend the term, the outstanding principal amount shall be repaid in equal monthly instalments over the following four years. The bank has advised the Corporation of its current intention to extend the term at the end of the current revolving period in September 2003. In the event that the bank does not extend the term, instalments amounting to $24,000,000 will be payable in fiscal 2004, based on debt outstanding at May 31, 2003, and have been classified as the current portion of long-term debt on the consolidated balance sheets [2002 - $13,750,000].

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. The agreement also requires the Corporation to meet certain financial ratios on a quarterly basis.

As at May 31, 2003, $144 million [2002 - $82.5 million] has been drawn on this facility in the form of bankers' acceptances at an effective interest rate of 3.60% [2002 - 2.76%]. Interest expense attributable to the long-term debt in fiscal 2003 was $5,317,871 [2002 - $2,924,577].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

10. 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, 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**
Issuance of share capital *[note 4]*	**71,217,055**	**651,636,053**
Share repurchase	**(10,114,000)**	**(28,681,287)**
Exercise of stock options	**3,637,165**	**22,252,623**
May 31, 2003	**235,525,648**	**938,657,151**

For shares issued on the exercise of stock options after the amendment to the employee incentive stock option plan on April 9, 2003 (note 10 (b)), the liabilities at the dates on which the stock options were exercised amounted to $8,060,301 and were included in the stated value of the shares issued.

During fiscal 2003, 10,114,000 common shares [2002 - 11,943,900] were repurchased under a normal course issuer bid at an average cost of $10.30 per share [2002 - $11.66] for a total consideration of $104,176,733 [2002 - $139,289,860]. Deficit was increased by $75,495,446 [2002 - $118,914,427] for the cost of the shares repurchased in excess of their stated value.

During the period from June 1 to June 27, 2003, the Corporation repurchased an additional 929,700 common shares under the normal course issuer bid at an average cost of $11.49 per share for a total consideration of $10,679,830.

[b] Employee incentive stock option plan

The Corporation has an employee 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 41,722,566. As at May 31, 2003, there are 10,071,675 [2002 - 12,720,200] 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 $3.13 to $12.01 per common share with a total intrinsic value of $36,727,792 at May 31, 2003 and expire at dates up to 2008.

On April 9, 2003, the Board of Directors approved an amendment to the Plan, which introduced a cash settlement alternative to be included both in existing options and in options to be granted in the future. Consequently, the Corporation will recognize a liability and compensation expense in future periods based upon the intrinsic value of the existing options and the proportion of their vesting periods that have elapsed. Based on a market price of $10.68 per common share on April 9, 2003, the Corporation immediately recognized a compensation expense of $36,017,982. The total stock-based compensation expense for the year ended May 31, 2003 of $42,841,058 has been included in selling, general and administrative expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

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

	2003		2002	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Options outstanding, beginning of year	**12,720,200**	**6.72**	13,522,000	5.77
Options granted	**1,928,040**	**10.51**	1,372,300	12.00
Options exercised	**(4,171,565)**	**3.98**	(2,044,600)	3.57
Options cancelled	**(405,000)**	**14.39**	(129,500)	13.67
Options outstanding, end of year	**10,071,675**	**8.27**	12,720,200	6.72
Options exercisable, end of year	**3,811,435**	**6.86**	5,467,175	4.41

Details of the Plan options outstanding and exercisable as at May 31, 2003 are as follows:

Exercise price $	**Number of options outstanding #**	**Weighted average remaining contractual life [years]**	**Number of options exercisable #**
3.13	40,000	1.2	40,000
3.63	53,700	0.9	53,700
3.78	70,000	0.5	70,000
4.00	979,383	1.6	979,383
4.15	20,000	1.6	20,000
4.51	1,355,128	2.3	576,528
4.73	1,106,000	2.4	326,000
4.78	656,124	1.9	353,124
7.78	72,000	2.6	36,000
10.51	1,928,040	4.9	—
11.00	1,197,400	2.8	597,200
11.27	1,261,600	3.8	315,400
12.01	1,332,300	4.0	444,100
3.13 to 12.01	**10,071,675**	**3.2**	**3,811,435**

[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, 2003, the carrying amount of employee share purchase loans is $11,831,263 [2002 - $2,210,492] 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, 2003, the shares held as collateral have a market value of approximately $25,144,498 [2002 - $4,620,000].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

[d] Earnings and operating cash flow per share

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

	2003	2002
	#	#
Basic	**224,849,566**	176,016,773
Diluted	**228,447,170**	182,098,663

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, if any, of stock options. For this purpose, the effect of options for 1,332,300 shares [2002 - 312,465 shares] have been excluded because such options were not "in the money" during the year.

11. RELATED PARTY TRANSACTIONS

The Corporation enters into transactions related to the advisory and distribution of the Funds with Sun Life Assurance Company of Canada, a shareholder of the Corporation, and its subsidiaries ["Sun Life"]. These transactions are in the normal course of operations and have been recorded at the agreed upon exchange amounts. During the year ended May 31, 2003, the Corporation incurred charges for deferred sales commissions of $1,792,211, investment adviser fees of $2,096,711 and trailer fees of $52,929,466 to Sun Life. The balance payable to Sun Life as at May 31, 2003 of $5,327,801 is included in accounts payable and accrued liabilities.

12. 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:

	2003	2002
	$	$
Future income tax liabilities		
Fund management contracts	**121,200,000**	—
Deferred sales commissions	**49,035,759**	80,071,822
Other, net	**3,222,132**	27,532
Total future income tax liabilities	**173,457,891**	80,099,354
Future income tax assets		
Stock-based compensation	**9,932,515**	—
Book amortization in excess of CCA	**2,588,224**	1,687,762
Deferred lease inducements	**1,012,974**	547,223
Ontario corporate minimum tax credits	**203,274**	220,800
Total future income tax assets	**13,736,987**	2,455,785
Net future income tax liabilities	**159,720,904**	77,643,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [May 31, 2003 and 2002]

The net future income tax liabilities are classified in the consolidated balance sheets as follows:

	2003	2002
	$	$
Current future income tax assets	**9,932,515**	—
Non-current future income tax liabilities	**169,653,419**	77,643,569

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

	2003	2002
	%	%
Combined Canadian federal and provincial income tax rate	**37.8**	40.2
Increase (decrease) in taxes resulting from:		
Compensation expense on share settled options	**2.8**	—
Non-taxable portion of capital losses (gains)	**0.9**	(0.3)
Impact of rate changes on future income taxes	**(0.1)**	(2.1)
Other, net	**(0.6)**	(0.4)
	40.8	37.4

13. 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:

	$
2004	10,247,000
2005	7,592,000
2006	5,048,000
2007	4,568,000
2008	4,329,000
2009 and thereafter	12,362,000

14. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 consolidated financial statements.

CORPORATE DIRECTORY [September 30, 2003]

CI FUND MANAGEMENT INC.: DIRECTORS AND OFFICERS

DIRECTORS

Robert M. Astley
President,
Canadian Operations,
Sun Life Financial Inc.;
Director

Waterloo, Ontario

Ronald D. Besse
President, Besseco
Holdings Inc.;
Lead Director

Toronto, Ontario

G. Raymond Chang
President, G. Raymond
Chang Ltd.; Director
and Chairman of the
Board (non-executive)

Toronto, Ontario

Paul W. Derksen
Executive Vice-President
and Chief Financial
Officer, Sun Life
Financial Inc.; Director

Mississauga, Ontario

William T. Holland
Director

Toronto, Ontario

A. Winn Oughtred
Partner, Borden Ladner
Gervais LLP;
Director

Toronto, Ontario

George W. Oughtred
President, Privatbanken
Holdings Inc.; Director

Calgary, Alberta

David J. Riddle
President, C-Max
Capital Inc.; Director

Vancouver, B.C.

OFFICERS

William T. Holland
President and
Chief Executive Officer

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

CI MUTUAL FUNDS INC.

EXECUTIVE

William T. Holland
Chairman
and Director

Stephen A. MacPhail
Director

Peter W. Anderson
President,
Chief Executive Officer
and Director

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

MANAGEMENT AND SALES

Lorraine P. Blair
Senior Vice-President,
Human Resources

Kevin L. Bonello
Vice-President

Ron J. Bowes
Vice-President

Claudio Bufi
Vice-President

Michael R. Bustard
Vice-President,
Administration

Thomas V. Caswell
Senior Vice-President

Kathy M. Chan
Vice-President,
Finance

Aletta Dewar
Vice-President,
Compliance

Marcelo A. Donato
Senior Vice-President,
Fund Reporting

Patrick S. Flemming
Vice-President

Mike Gramegna
Senior Vice-President

Derek J. Green
Senior Vice-President

Sean E. Hayes
Vice-President

Fabio Iannicca
Vice-President,
Administration

Munir T. Issa
Executive Vice-President,
Information
Technology

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

K. Michael Kelly
Senior Vice-President

Neal A. Kerr
Senior Vice-President

Pierre Lalonde
Vice-President

Mark D. MacLeod
Vice-President,
Client Services

Andrew B. McBain
Vice-President

David R. McBain
Senior Vice-President

Carey W. McIntee
Senior Vice-President

Karl E. Palmen
Vice-President

David C. Pauli
Executive Vice-President,
Fund Operations

S. Scott Pehleman
Senior Vice-President

Jacques Prévost
Vice-President

S. Roy Ratnavel
Vice-President

Larry H. Rowe
Vice-President,
Shareholder Systems

Alain Ruel
Senior Vice-President

Dean J. Shales
Vice-President,
Administration

Greg H. Shin
Senior Vice-President,
Fund Accounting

Philippe J. Ventura
Vice-President

Chris von Boetticher
Vice-President,
Legal Counsel

Julie A. Warren
Vice-President

Michael W. Warus
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

James Dutkiewicz
Vice-President,
Signature Funds

Robert D. Lyon
Vice-President,
Signature Funds

Matthew A. Shandro
Vice-President,
Signature Funds

P. Andrew Waight
Vice-President,
Signature Funds

Malcolm S. White
Vice-President,
Signature Funds

Alexandar Zivic
Vice-President,
Signature Funds

Gerald F. Coleman
Chief Investment
Officer,
Harbour Funds

Stephen F. Jenkins
Vice-President,
Harbour Funds

CORPORATE INFORMATION [September 30, 2003]

HEAD OFFICE

CI Place
151 Yonge Street, Eleventh Floor
Toronto, Ontario M5C 2W7
Telephone: 416-364-1145
Toll Free: 1 800 268-9374
www.cifunds.com

SALES OFFICES

Vancouver
650 West Georgia Street,
Suite 2420
Vancouver, B.C. V6B 4N9
Telephone: 604-681-3346
Toll Free: 1 800 665-6994

Calgary
926 5th Avenue SW,
Suite 300
Calgary, Alberta T2P 0N7
Telephone: 403-205-4396
Toll Free: 1 800 776-9027

Montréal
630 René-Lévesque Blvd. West,
Suite 1820
Montréal, Québec H3B 1S6
Telephone: 514-875-0090
Toll Free: 1 800 268-1602

Halifax
1969 Upper Water Street,
Suite 1705
Halifax, Nova Scotia B3J 3R7
Telephone: 902-4222-2444
Toll Free: 1 888 246-8887

INVESTOR RELATIONS

Contact: Stephen A. MacPhail
Telephone: 416-364-1145
Toll Free: 1 800 268-9374
E-mail: smacphail@cifunds.com

TRADING SYMBOL

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

AUDITORS

Ernst & Young LLP
Toronto-Dominion Centre
P.O. Box 251
Toronto, Ontario M5K 1J7

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
9th Floor, 100 University Avenue
Toronto, Ontario M5J 2Y1
Telephone: 1 800 564-6253
E-mail: caregistry@computershare.com

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on November 28, 2003 at 2:00 p.m. at the Hilton Toronto, Toronto, Ontario.

DIGITAL REPORT

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

This Annual Report contains forward-looking statements with respect to CI, including its business operations and strategy and financial performance and condition. Although management believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, including interest rates, business competition, changes in government regulations or in tax laws, and other factors discussed in materials filed with applicable securities regulatory authorities from time to time.

CI FUND MANAGEMENT INC.