

C . I . F U N D M A N A G E M E N T I N C .



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C.I. Fund Management Inc. is a publicly-traded Canadian corporation that carries on activities primarily through its wholly-owned subsidiary, C.I. Mutual Funds Inc., with assets under management of \$8.3 billion.

The Annual and Special Meeting of Shareholders will be held on October 8, 1998 at 2:00 p.m. at the Toronto III Room of the Toronto Hilton, Toronto, Ontario.

Our corporate philosophy is simple:

Be innovative in our thinking, generate

trust by our actions, be responsible in

our financial management and ensure

clients receive a consistently high level

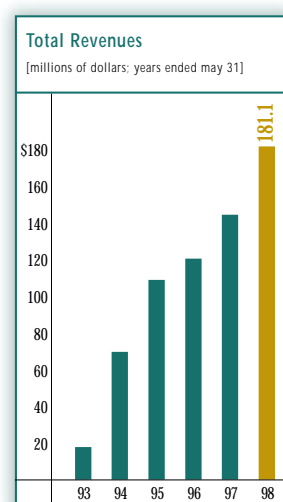
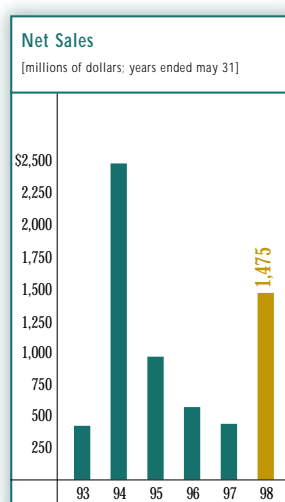
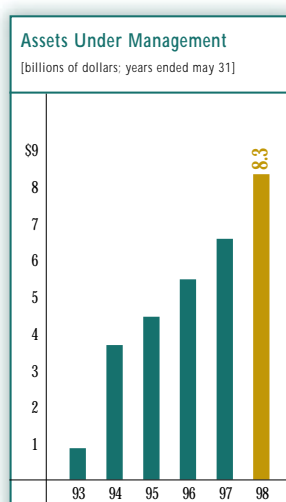
of service.



SIX YEAR FINANCIAL HIGHLIGHTS

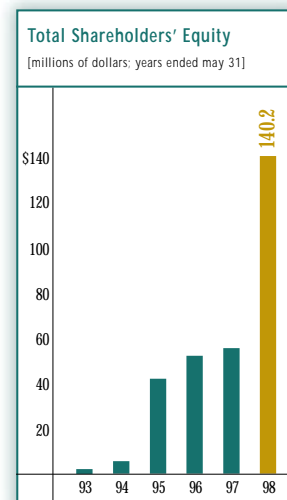
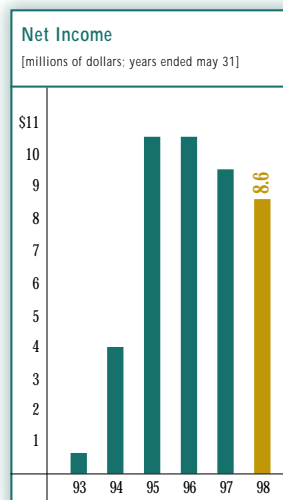
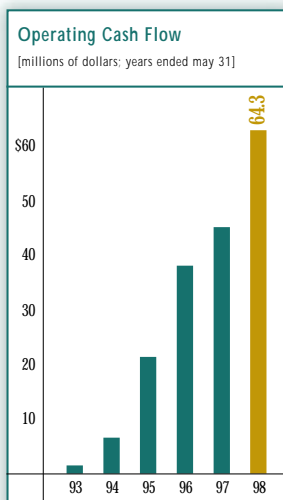
years ended may 31, [in millions of dollars except per share amounts]	1998	1997
Total assets under management, end of year	8,302	6,516
Net sales	1,475	461
Revenue:		
Management fees and other income	143.8	114.5
Redemption fees	8.4	4.1
Expenses charged to mutual funds	28.9	26.8
Total revenues	181.1	145.4
Expenses:		
Selling, general and administrative	46.5	40.7
Investment adviser fees	16.3	13.1
Trailer fees	34.9	28.9
Distribution fees to limited partnerships	11.3	11.4
Amortization of deferred commissions	47.3	26.4
Other (including securitization)	8.5	7.4
Total expenses	164.8	127.9
Income before taxes	16.3	17.5
Net income	8.6	9.5
Operating cash flow	64.3	45.1
Earnings per share	0.24	0.29
Operating cash flow per share	1.80	1.37
Shareholders' equity, end of year	140.2	55.8
Shares outstanding, end of year*	36,871,722	32,784,790

*adjusted for 2 for 1 stock split in April 1998



	1996	1995	1994	1993
	5,469	4,394	3,733	960
	537	909	2,463	402
	96.6	86.9	56.5	14.7
	1.4	0.1	—	—
	22.1	21.6	12.1	4.4
	120.1	108.6	68.6	19.1
	34.3	34.9	29.4	9.6
	11.4	11.2	7.8	2.9
	24.0	19.9	10.0	2.7
	11.9	11.9	8.7	2.8
	11.8	1.2	—	—
	7.7	10.2	4.8	—
	101.1	89.3	60.7	18.0
	19.0	19.3	7.9	1.1
	10.5	10.5	4.0	0.6 [†]
	37.4	20.9	6.0	1.1
	0.32	0.32	0.15	0.03
	1.14	0.64	0.23	0.05
	50.8	43.1	6.0	1.3
	32,959,526	32,970,526	26,770,000	26,610,000

[†] net income from continuing operations



M E S S A G E T O

O U R S H A R E H O L D E R S



The Executive
Committee:
Peter W. Anderson,
William T. Holland,
Stephen A. MacPhail,
G. Raymond Chang

Fiscal 1998, by all measures, was a very successful year for C.I. Assets under management grew by 27%, ending the year at \$8.3 billion. The increase for the year was \$1.8 billion, the second highest in C.I.'s history. This growth was fueled by \$1.5 billion in net sales of C.I.'s funds, a 220% increase from the prior year. C.I.'s asset growth, in combination with stringent financial management, produced \$64 million in operating cash flow, a 43% increase for the year. In addition, we successfully raised \$100 million through a common share issue, increased shareholders' equity to \$140 million, and repurchased C.I.'s securitization subsequent to year end. Now, C.I. has no debt on or off the balance sheet.

C.I.'s most notable activity in fiscal 1998 was the successful launch of the Harbour Funds under the management of Gerald Coleman of C.I. Capital Management. Launched in July 1997, the Harbour Funds assets totalled \$1.4 billion by May 31, 1998. This represents one of the most successful new fund launches in Canada. The success of the Harbour Funds also increased the proportion of our assets that are invested in North American markets, a key C.I. objective.

Fiscal 1998 also marked the launch of the C.I. Segregated Funds. C.I., in conjunction with a federally chartered mutual life insurance company, was the first mutual fund company to combine mutual funds with the insurance benefits of guaranteed principal at death or maturity of the investment, potential creditor protection and probate exemption. Since their launch in late 1997, these funds have grown to almost \$100 million. Equally important, the creation of these funds has opened the independent insurance channel to C.I.'s products which broadened our distribution network, another key C.I. objective. Since C.I., in conjunction with a federally chartered mutual life insurance company, launched its segregated funds, a number of other mutual fund companies have followed C.I.'s lead in what will continue to be an increasingly competitive but growing market.

In August 1997, C.I., in conjunction with DDJ Capital Management, launched the DDJ Canadian High Yield Fund raising \$290 million in a 10 year closed-end fund. This fund, like our C.I. Covington Fund, represents a unique opportunity that will contribute significantly to the revenues generated from our core mutual fund products.

InfoWise, the subsidiary formed to provide administrative services to other

financial services companies, began to actively pursue business in fiscal 1998. To date, InfoWise results have been promising, with a number of major service contracts acquired and successfully brought on-line. We clearly view this as an excellent business opportunity for C.I. with InfoWise positioned to contribute to C.I.'s bottom line in 1999.

Despite all of the successes listed above, C.I.'s growth was significantly affected by the ongoing crisis in the Asian markets. C.I. Pacific Fund, the company's largest fund at the beginning of the Asian bear market, has lost over half of its value due to market depreciation. Given that all markets are cyclical in nature, conventional wisdom indicates that these markets represent an exceptional investment opportunity. C.I. is well positioned to benefit from the inevitable turnaround.

Many of C.I.'s funds have provided excellent returns, based on relative performance. Most notable are the BEA-managed funds that rank among the top-performing funds in Canada, and the C.I. Canadian Growth Fund under the direction of J. Zechner Associates that has been one of the leading large Canadian equity funds in 1998.

Prudent expense management is an integral part of delivering high quality investment products. In fiscal 1998, C.I. dropped mutual fund operating expenses from a marginal cost of 45 basis points to 38 basis points. This 16% improvement is passed on to the investors in our funds. Our objective is to continue to reduce these costs to ensure that C.I.'s funds are competitive in all respects.

In addition to a strong product lineup and competitive costs, it is critical that C.I. provides extensive support to those distributing our funds. We continue to expand our sales and marketing team, which now includes specialists in the area of independent insurance agents. We were the first in the industry to offer clients current statements on the Internet which ensures that our clients have all account information instantly available.

A final comment: at C.I., we never lose sight of our obligation to continually build shareholder value. To accomplish this, we must continue to increase the assets under management while focusing on running our business efficiently.

Our exceptional long-term growth and financial performance are evidence that we are on the right track. C.I.'s operating margins are comparable to our much larger competitors. All expenditures are evaluated on whether they build our business in a manner that increases shareholder value.

Prudent financial management, combined with our focus on sales and marketing along with innovative products, will continue to produce strong results in the years to come.

G. Raymond Chang [signed]
President and Chief Executive Officer

William T. Holland [signed]
Executive Vice-President and Chief Operating Officer

OPERATING

REVIEW

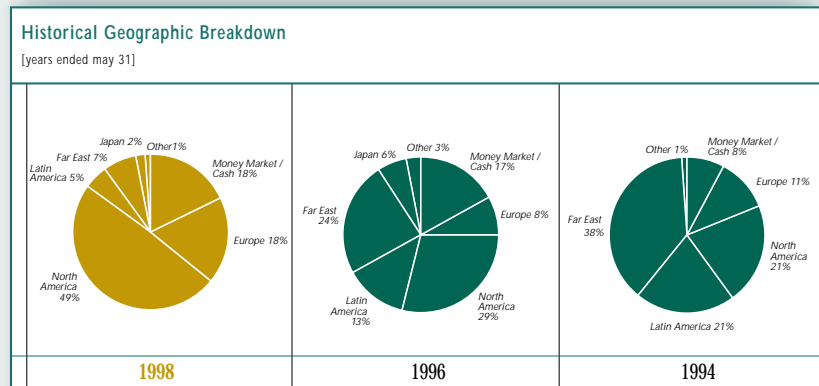
In fiscal 1998, the growth in the Canadian mutual fund industry continued with overall industry assets increasing 31% to total \$330 billion. The primary contributor to this growth was the performance of the Canadian equity markets that posted a 20% return (TSE 300 one-year total return to May 31, 1998).

Investors continued their preference for large domestic equity funds and conservative global funds, very similar to the prior year. One significant change was the decrease in the relative number of mutual fund companies with growth exceeding the average industry growth rate. This trend became stronger later in the year, suggesting an increasingly competitive battle among fund companies for shelf space with fund distributors.

In fiscal 1998, independent mutual fund companies fared better than the bank-owned mutual fund companies, as the latter experienced overall growth rates which were approximately 26% lower than the overall industry growth rate.

C.I.'s overall growth improved significantly from the prior year with assets under management increasing by 27%. Of the overall growth in assets, 22% was from C.I.'s mutual fund assets and the remainder came from sales of C.I.'s segregated funds, the labour-sponsored fund, and the DDJ Canadian High Yield Fund. C.I.'s

Since 1994, C.I.'s asset mix has shifted from predominately Asian and emerging markets to predominately North American markets.



mutual fund sales accounted for approximately 67% of C.I.'s overall growth, well ahead of the industry where net sales represented approximately 32% of the overall growth in fiscal 1998.

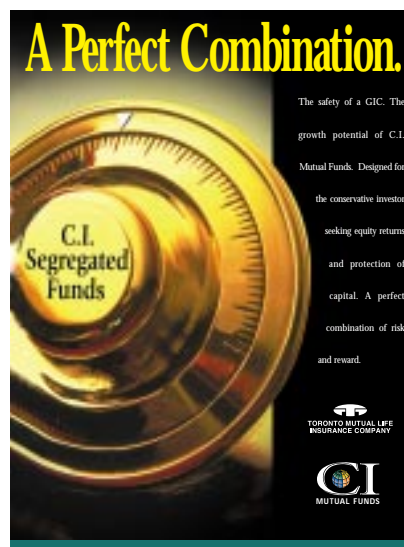
C.I. was affected by market-related growth, as a lower percentage of C.I.'s funds were in domestic funds that outperformed many international funds in fiscal 1998. Especially hard-hit were funds with Asian and emerging markets exposure. C.I. has proportionately more of these funds than other Canadian mutual fund companies. When C.I. became a publicly traded company in 1994, its Asian and emerging markets exposure represented almost 60% of total assets, primarily due to the success of those C.I. funds in the early 1990s. As a result of the strategy to broaden product lines, especially in core domestic and global funds, the Far East and emerging markets now represent only 13% of C.I.'s assets, but still enough to affect relative market growth.



HARBOUR FUNDS

Net sales of C.I. funds in fiscal 1998 were \$1,475 million, an increase of 220% from fiscal 1997. The main contributing factor was the success of the Harbour Funds. During the year, a significant marketing effort by C.I.'s wholesaling staff and targeted advertising created a broad awareness for the Harbour Funds. Of note was the comprehensive billboard campaign, a familiar sight in most major cities across Canada. The assets of the Harbour Funds totalled \$1.4 billion one year after the funds launched in July 1997, making it C.I.'s most successful fund launch ever.

C.I. pioneered the entry by mutual fund companies into segregated funds.



The C.I. Segregated Funds also had an impact on C.I.'s net sales during the year. C.I. pioneered the entry by mutual fund companies into segregated funds by forging a strategic alliance with an insurance company while leveraging C.I.'s investment management, administrative, and marketing expertise. Six months after the launch of the C.I. Segregated Funds, C.I. has established relationships with a significant number of insurance dealerships who in many cases are also licensed to sell mutual funds.

In August 1997, the 10 year closed-end DDJ Canadian High Yield Fund was completed, raising \$290 million. C.I. was able to capitalize on the expertise of the back office administrative business, InfoWise, to win selection as manager of this product.

An important development in fiscal 1998 was the rising popularity of Bill Sterling, Chief Investment Officer and global strategist for BEA Associates. Bill Sterling has been closely associated with C.I. since his arrival at BEA in 1995 and has been instrumental in turning many of the BEA-managed funds into top quartile performers. Sterling's recognition as a leading authority on global trends has been building among the large investment dealers, which in turn is increasing the awareness of C.I.'s BEA-managed funds. The BEA brand is an important part of C.I.'s long-term strategy.

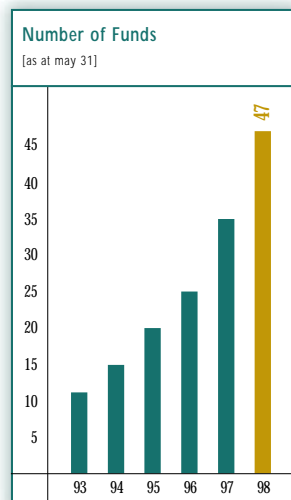
As competition for shelf space among fund distributors intensifies, strong fund brands are vital.

In addition to the positioning of the Harbour Funds and the BEA-managed funds, steps were taken to simplify C.I.'s mutual fund line-up into four major groups: Harbour Funds for domestic value-oriented investments; the Zechner-managed funds for active growth; BEA for global growth funds; and Hansberger for global value-based funds. The Monarch Funds previously offered by C.I. were rolled into the Harbour Funds after performance did not meet C.I.'s expectations. BEA has taken over the management of the C.I. Pacific Fund from TCW and is being advised by BEA's Nandu Narayanan, who also advises the C.I. Emerging Markets Fund—the best performing emerging markets fund in calendar 1997 on an international basis.

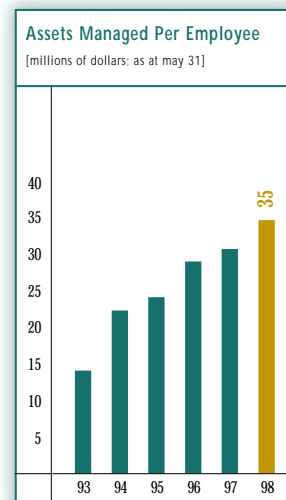
In addition to broadening C.I.'s product lineup, emphasis has continued on building C.I.'s sales force. A marketing office has been opened in Calgary, Alberta and the existing marketing groups have been expanded in Quebec, Ontario and British Columbia, including a sales team dedicated to insurance dealers and brokers.

In-house support for C.I.'s products continues to be enhanced with current statement availability via the Internet and fax and advanced client services technology that facilitates one of the fastest telephone response times in the industry. In addition to

C.I. broadened its fund line-up in 1998 by adding the family of Harbour Funds, the family of C.I. Segregated Funds and the DDJ Canadian High Yield Fund.



Benefits of technology and operating effectiveness continue to allow C.I. to increase assets managed per employee while improving overall customer service levels.



the improvements in service and client information technology, C.I. continued to reduce operating expense margins for its funds. In October 1997, C.I. reduced these expenses by almost 16% with further improvements expected from economies of scale and efficiency benefits derived from C.I.'s InfoWise operations.



InfoWise is C.I.'s wholly-owned subsidiary, formed in fiscal 1997 to provide third-party administration to financial institutions. Contracts are now in place to provide a wide range of third-party services including wrap accounts for high net-worth investors, pooled funds, segregated funds, and other mutual funds. InfoWise, demonstrating its lead role in back office administration technology, positioned C.I. to launch new products with strategic partners in fiscal 1998 such as the C.I. Segregated Funds and the DDJ Canadian High Yield Fund.

Finally, C.I. continued to maintain its strict financial discipline. Operating margins were maintained at nearly 100 basis points for the third consecutive year. At these levels, C.I.'s margins are comparable with significantly larger mutual fund competitors and have established C.I. as a lean, focused organization.

I N V E S T M E N T

M A N A G E M E N T

The investment counselling firms which advise C.I.'s funds are critical to the company's ability to offer Canadian investors a broad range of investment products. Our fund advisers are selected for the specialized management styles they bring to the portfolios, and managing C.I. products becomes their highest priority. In each case, C.I. is the largest client account for these firms. As the relationships with core investment managers have evolved over the past few years, the advisers have become a key component of the C.I. brand.

The mandate for BEA Associates of New York has expanded from its beginnings with the C.I. Global Fund to a full spectrum of globally-oriented equity and fixed income portfolios, including emerging markets as well as industry and theme-specific funds. The creation of C.I. Capital Management in July 1997 was consistent with the company's philosophy of responding to investor needs. Investors were seeking the long-term growth potential associated with established companies, managed in a style that would provide a buffer in volatile markets.

C.I.'s mutual fund portfolios are now managed by two domestic and two international fund advisers. Within each category, investors can choose from a value-driven, relatively conservative approach or a more growth-oriented style of portfolio management.

DOMESTIC ADVISER – C.I. Capital Management (C.I.C.M.)*, the company's in-house asset management division, was established with Gerald Coleman as the primary investment adviser. Mr. Coleman had built up a sterling reputation during more than 20 years of value management. His value orientation was considered ideal for developing core Canadian investment products as an alternative to the more actively managed, growth-oriented funds advised by J. Zechner Associates.

The flagship products of C.I.C.M. are the Harbour Funds. The advisers typically look for fundamentally sound, well-managed companies at attractive prices and give equal priority to value and growth. Investments may be held for four or five years, with the objective of delivering solid returns in a low risk environment.

DOMESTIC ADVISER – J. Zechner Associates has played a key role in establishing a C.I. presence in Canadian markets. Since 1993, when the first Canadian funds

*subject to regulatory approval

were launched, assets under management have increased to over \$2.0 billion. At the time the funds were established, C.I. was looking for an active manager who could build portfolios of large, blue-chip companies with an emphasis on growth. Management style focuses on a thorough study of the top-down economic environment both in Canada and abroad, followed by selection of companies from Canadian market sectors judged most likely to produce maximum growth.

INTERNATIONAL ADVISER – BEA Associates has been instrumental in the evolution of C.I.'s substantial roster of international funds. In 1990, C.I. sought a manager for the C.I. Global Fund that was recognized for its investing expertise outside North America, and particularly the emerging markets. At that time, BEA was among the top-rated global and emerging market money managers.

Respected for the strength of its global strategy team and depth of resources, the company today manages assets of some \$60 billion. Management style is growth oriented, with an emphasis on advanced asset allocation models as determined by extensive macro-economic research from the global strategy team. Using these guidelines, BEA's portfolio advisers are well equipped to select companies from around the world most likely to deliver healthy growth over the long term.








INTERNATIONAL ADVISER – Hansberger Global Investors. When C.I. conducted a search in 1995 for a value-oriented international manager to complement BEA's growth approach, one candidate stood out. Thomas Hansberger, long-time partner of Sir John Templeton and Chief Executive Officer of Templeton Worldwide, was starting up his own business. After observing his careful structuring of the new business, the management of C.I. was able to retain Hansberger Global Investors with a high degree of confidence.

Hansberger Global Investors takes a meticulous, bottom-up approach to global investing. Analysts and researchers from four international offices work closely as a team to identify the best managed companies available at the most attractive prices. These companies undergo exhaustive scrutiny by the entire team. Those considered suitable candidates are placed on the company's Value List, which is used for portfolio selection.

C.I.
Fund
Advisers

Domestic Advisers		International Advisers	
C.I. Capital Management	J. Zechner Associates	BEA Associates	Hansberger Global Investors
\$1.4 billion	\$2.0 billion	\$3.4 billion	\$1.1 billion
<i>Advises 7 funds</i>	<i>Advises 8 funds</i>	<i>Advises 22 funds</i>	<i>Advises 7 funds</i>

C.I.
Fund
Family

Offering over 40 Canadian and international funds.	
 <p>Harbour Funds</p> <p>Harbour* Harbour Growth & Income Harbour Explorer*</p>	 <p>C.I. Funds</p> <p>C.I. Canadian Growth* C.I. Canadian Balanced C.I. Dividend C.I. Canadian Income C.I. Canadian Bond C.I. Canadian Resource C.I. Money Market C.I. US Money Market C.I. Global* C.I. Global Equity RSP C.I. American* C.I. American RSP C.I. International Balanced C.I. International Balanced RSP C.I. World Bond C.I. Global High Yield C.I. Global Bond RSP C.I. Latin American* C.I. Emerging Markets* C.I. Pacific*</p>
 <p>C.I. Segregated Funds</p> <p>C.I. Harbour Segregated C.I. Harbour Growth & Income Segregated C.I. Global Segregated C.I. American Segregated C.I. Hansberger Value Segregated C.I. Money Market Segregated</p>	 <p>C.I. Sector Funds</p> <p>C.I. Global Financial Services C.I. Global Health Sciences C.I. Global Resource C.I. Global Technology C.I. Global Telecommunications C.I. Global Consumer Products C.I. Global Boomernomics C.I. Global Energy</p>
 <p>Hansberger Value Series Funds</p> <p>Hansberger Value* Hansberger International* Hansberger Global Small Cap* Hansberger European* Hansberger Developing Markets* Hansberger Asian*</p>	
 <p>Labour-Sponsored Fund</p> <p>C.I. Covington</p>	
 <p>Closed-End Fund</p> <p>DDJ Canadian High Yield</p>	

*also available as a class of C.I. Sector Fund Limited.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF FINANCIAL POSITION

years ended may 31, [millions of dollars except per share amounts]	1998	1997	% change
INCOME STATEMENT DATA			
Revenue			
Management fees	140.3	112.6	+24.6
Redemption fees	8.4	4.1	+104.9
Administration fees and other income	3.5	1.9	+84.2
Expenses charged to mutual funds	28.9	26.8	+7.8
Total revenues	181.1	145.4	+24.6
Operating Expenses			
Selling, general and administrative	46.5	40.7	+14.3
Investment adviser fees	16.3	13.1	+24.4
Trailer fees	34.9	28.9	+20.8
Commission Related Expenses			
Net fees paid to securitization	7.4	6.8	+8.8
Distribution fees to limited partnerships	11.3	11.4	-0.9
Amortization of deferred commissions	47.3	26.4	+79.2
Other items	1.1	0.6	+83.3
Income before taxes	16.3	17.5	-6.9
Net income	8.6	9.5	-9.5
Earnings per share	0.24	0.29	-17.2
Operating cash flow	64.3	45.1	+42.6
Operating cash flow per share	1.80	1.37	+31.4
Shareholders' equity, end of year	140.2	55.8	+151.3
ASSET MANAGEMENT DATA			
Average net assets under management	7,175	5,754	+24.7
Total assets under management, end of year	8,302	6,516	+27.4
Total gross sales	2,706	1,482	+82.6
Total redemptions	1,231	1,021	+20.6
Total net sales	1,475	461	+220.0

OVERVIEW OF BUSINESS

The principal business of C.I. Fund Management Inc. is the management, marketing, distribution, and administration of mutual funds and other investment products for Canadian investors through its wholly-owned subsidiary C.I. Mutual Funds Inc. ("C.I."). At May 31, 1998, C.I. managed \$8.3 billion in assets in 39 domestic and international mutual funds, six segregated funds, one labour-sponsored fund, and one closed-end fund. C.I. markets its funds to Canadian retail investors through approximately 10,000 investment and mutual fund dealers representing over 500,000 retail investment accounts owning C.I. mutual funds and over 2,000 life-licensed insurance representatives with agreements allowing for the sale of the C.I. Segregated Funds.

In order to offer a broad range of domestic and international funds to Canadian investors, C.I. utilizes the expertise of external and internal investment advisers. The investment advisers to C.I.'s international mutual funds are BEA Associates of New York and Hansberger Global Investors of Ft. Lauderdale. C.I.'s domestic funds advisers are J. Zechner Associates and C.I. Capital Management (C.I.'s in-house asset manager) of Toronto. The investment adviser for C.I.'s labour-sponsored fund, the C.I. Covington Fund, is Covington Capital Corporation,

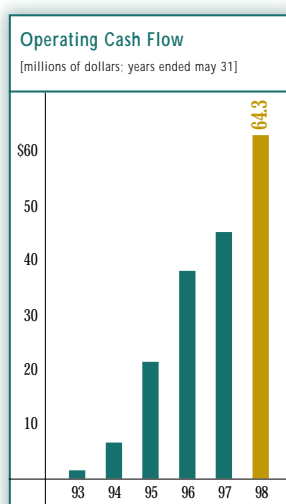
Toronto and for the DDJ Canadian High Yield Fund (a closed-end investment trust) is DDJ Capital Management, LLC, Wellesley, Massachusetts.

Increasing C.I.'s assets under management requires good fund performance and continuous support to investment dealers, mutual fund dealers, and insurance agents. C.I.'s products must continue to attract investor interest, so new funds are created that appeal to a wide range of investor needs. Over the years, C.I. has consistently developed new products for investors such as the sector funds, global funds, Hansberger Value Series, and a labour-sponsored fund.

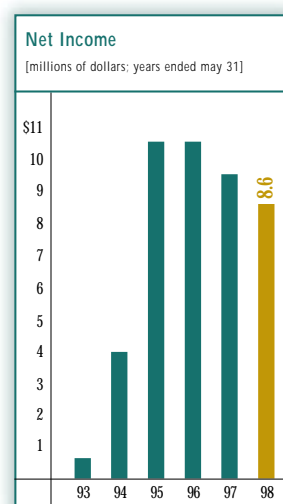
In fiscal 1998, C.I. introduced three major new products. In July 1997, C.I. launched the Harbour Funds, consisting of the Harbour Fund, Harbour Growth & Income Fund, and the Harbour Explorer Fund. The primary investment adviser is Gerald Coleman of C.I. Capital Management.

In August 1997, the DDJ Canadian High Yield Fund was launched. C.I. acts as manager and administrator for this ten year closed-end fund with assets of \$290 million.

In November 1997, C.I. launched the C.I. Segregated Funds in conjunction with Toronto Mutual Life



The growth in C.I.'s operating cash flow reflects increased assets under management, consistent margins and an increasing proportion of self-financed assets.



Net income decreased as a result of C.I.'s rapid amortization of sales commissions and increased sales.

Insurance Company. These funds are similar to mutual funds, yet offer guaranteed principal at death of the investor or maturity of the investment. The guarantees are reinsured through a major international re-insurer to eliminate C.I.'s exposure to this risk.

REVENUES

The majority of C.I.'s revenues are earned from the management services it provides as fund manager. The key determinant of C.I.'s revenue is the level of assets under management, determined by market returns of the funds and positive or negative net sales (gross sales less redemptions). Management fees charged by C.I. to the funds range up to 2.25% of the average net asset value of the funds. The mix of funds managed by C.I. will also affect revenues. Emerging markets funds tend to generate the highest management fees with bond and money market funds being the lowest. The mix of C.I.'s funds is determined by the relative performance of the funds and the level of net sales of each of the funds.

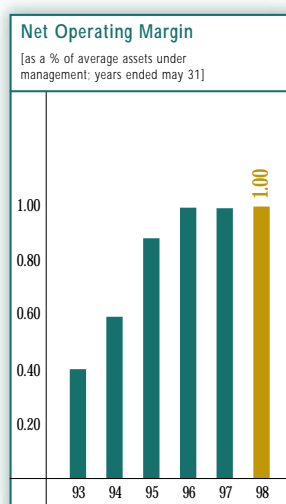
Market returns on the funds are influenced by the performance of the financial markets and the position of C.I.'s investment advisers within those markets. The resulting fund performance is a key factor influencing net

sales of the funds. The prevailing market conditions help determine the effectiveness of sales and marketing campaigns with investment and mutual fund dealers.

C.I. also earns revenues from redemption fees. Investors are subject to redemption fees when mutual funds are purchased on a deferred sales charge basis and the investment is redeemed within seven years. Redemption fees are calculated as a percentage of the initial value of the funds sold and start at 5.5%, declining to zero after seven years.

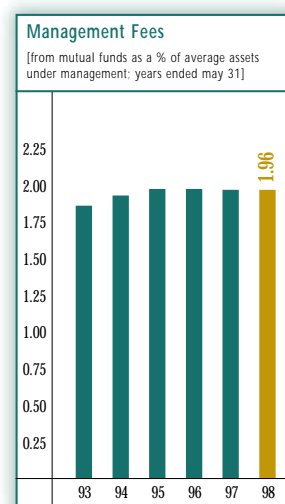
C.I. is responsible for the administration of the funds and incurs expenses on behalf of the funds. C.I. recovers most operating expenses by charging an administration fee to the funds which is recognized as revenue. Since these revenues represent a recovery of expenses, they do not affect the overall profitability of C.I.

C.I.'s third party administration business, InfoWise, generates revenue by providing back office administrative services to other financial service companies. At May 31, 1998, InfoWise had agreements with a number of outside parties. During fiscal 1998, revenues from InfoWise were not material to C.I.'s overall business.



C.I. maintained its 1.00% operating margin through a combination of offering higher fee equity funds and consistent expense management.

C.I.'s products are dominated by equity funds that generally earn 2.00% management fees. New products are evaluated on margin contribution.



EXPENSES

C.I. incurs certain key expenses in conjunction with the management, marketing, and distribution of its funds which constitute the majority of its expenses outside those operational expenses incurred on behalf of, and recovered from, the funds. These expenses include advisory fees paid to investment advisers, marketing expenses, trailer fees, and commission expenses.

Advisory fees paid to investment advisers are generally paid on the basis of a percentage of assets under management. C.I.'s advisers have different fee agreements and therefore the mix of funds will affect the overall expense level.

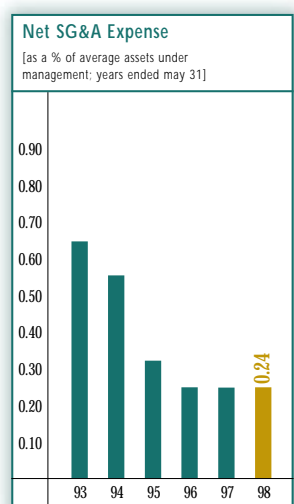
Operating expenses, net of those recovered from the funds, (referred to as net selling, general and administrative expenses) are primarily marketing expenses. In general, marketing expenses increase as C.I.'s assets under management increase.

Trailer fees are paid out to investment and mutual fund dealers and life insurance agents to assist them in providing ongoing support to the investors in C.I. funds. Trailer fees are calculated as a percentage of assets and will vary with overall assets under management.

C.I. monitors its operating profitability by measuring the operating margin calculated as a percentage of assets under management. C.I.'s operating margin is defined as management fees from C.I.'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 mutual/segregated funds under management. This allows C.I. to manage profitability when changes in the market value of assets under management affect revenue flows and permits adjustments to discretionary expenditures in order to maintain its margins.

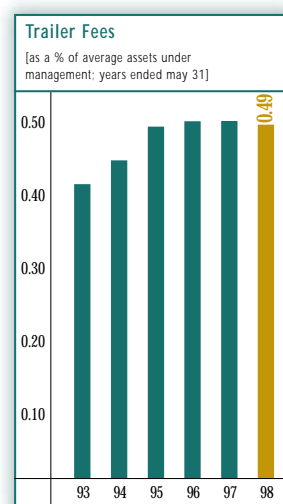
Commissions paid to investment and mutual fund dealers and life insurance agents on the sale of funds on a deferred sales charge basis vary directly with the level of sales. For financial reporting purposes, these deferred sales commissions are amortized over 36 months and have a negative effect on reported earnings during the 36 month period after the sale of the funds. C.I. has financed sales commissions with its own cash resources since January 1, 1995.

Commissions incurred prior to January 1, 1995 were financed by limited partnerships or a securitization vehicle. The expenses to C.I. for commissions financed by limited partnerships are reported as distribution fees paid to limited partnerships and are calculated as a percentage of



Marketing expenses constitute the majority of net SG&A expense and are increased proportionately with asset growth.

Trailer fees paid to investment and mutual fund dealers reflect C.I.'s high level of equity funds and are consistent with industry standards.



the assets where commissions were specifically financed by the limited partnerships. The effective amortization period for commissions financed by limited partnerships is the life of the limited partnership of 15 to 20 years.

The expense to C.I. for commissions financed by the securitization is reported as the net fees paid to securitization and reflects an effective amortization period of the commissions of seven years, the life of the securitization vehicle. In June 1998, C.I. repurchased all the outstanding notes issued by the securitization vehicle. The remaining effective unamortized commissions will be included in the amortization of C.I.'s deferred sales commissions.

**YEAR ENDED MAY 31, 1998
COMPARED WITH YEAR ENDED
MAY 31, 1997**

Assets under management (which includes C.I. Covington Fund, DDJ Canadian High Yield Fund and C.I. Segregated Funds) increased from \$6,516 million at May 31, 1997 to \$8,302 million at May 31, 1998, an increase of \$1,786 million or 27%. Average assets under management were \$7,175 million in fiscal 1998, an increase of 25% from \$5,754 million for the same period in fiscal 1997. As most of C.I.'s revenues and expenses are based on assets throughout the year, average asset levels are critical to the analysis of C.I.'s financial results.

The growth in assets under management was a result of the net sales (gross sales less redemptions) of \$1,475 million and an overall performance increase of \$311 million. This compares to fiscal 1997, when the annual growth in assets under management was \$1,047 million or 19%, comprised of net sales of \$461 million and an overall performance increase of \$586 million.

The overall market performance of C.I.'s funds both in fiscal 1997 and 1998 resulted from strong market gains in Canadian, European and U.S. markets.

Gross sales of the funds were \$2,706 million for the year ended May 31, 1998 compared to \$1,482 million for the

same period in 1997, an increase of 83%. Net sales (gross sales less redemptions) were \$1,475 million for the year ended May 31, 1998 compared to \$461 million for the same period in 1997. The increase in C.I.'s net sales from 1997 reflected the popularity of C.I.'s Harbour Funds with assets totalling \$1.4 billion by May 31, 1998, the best new fund launch for C.I.

Total revenues increased to \$181.1 million for the year ended May 31, 1998 from \$145.4 million for the same period in 1997. Revenues from management fees rose by 25% to \$140.3 million for the year ended May 31, 1998 from \$112.6 million in 1997. As a percentage of average assets under management, management fees charged to mutual funds were 1.96% for fiscal 1998, unchanged from 1.96% in fiscal 1997. Administration fees and other income (which include administrative fees, interest, and investment income) increased from \$1.9 million to \$3.5 million due to investment gains and interest income. Redemption fees rose from \$4.1 million in fiscal 1997 to \$8.4 million, reflecting the benefit of C.I. having initiated the self-funding of commissions in January 1995 and therefore retaining the right to any redemption fees paid.

Revenues represented by expenses recovered from the funds rose to \$28.9 million for the year ended May 31, 1998 from \$26.8 million in 1997. The increase in revenues reflected increased operating costs resulting from the increase in C.I. assets under management and the cost of improving C.I.'s administrative and technology systems.

Net fees paid to C.I.'s securitization vehicle (the "Trust") (which represents principal and interest payments and certain expenses of the Trust, net of redemption fees) were \$7.4 million for the year ended May 31, 1998 compared to \$6.8 million for the year ended May 31, 1997. The increase reflects the lower level of redemption fees received on the securitized assets in the Trust. As a percentage of assets under management, the net fees paid to the securitization were 0.10%. At May 31, 1998, the principal outstanding on the securitization was \$29.1

million, down \$9.4 million from the level at May 31, 1997. This facility was repurchased in full in June 1998. Total net operating expenses (which are comprised of net selling, general and administrative expenses, investment adviser fees, and trailer fees) for the year ended May 31, 1998 increased by \$12.9 million or 23% to \$68.8 million from \$55.9 million in 1997. Selling, general and administrative expenses (net of expenses recovered from the funds for activities carried out in support of the funds) were \$17.6 million, up from \$13.9 million in the prior fiscal year. This increase arose primarily due to increased advertising expenses, the cost of launching the Harbour Funds and the C.I. Segregated Funds, and expenses associated with increasing the marketing sales staff. As a percentage of assets under management, the net selling, general and administrative expenses were 0.24% in fiscal 1998, unchanged from 0.24% in fiscal 1997.

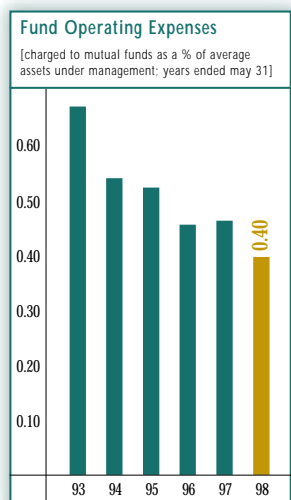
Investment adviser fees increased from \$13.1 million in fiscal 1997 to \$16.3 million in fiscal 1998 due to increased assets under management. However, as a percentage of average assets under management, investment adviser fees were unchanged at 0.23%. Trailer fees increased from \$28.9 million to \$34.9 million due to increased assets under management. As a percentage of average assets, trailer fees were 0.49% of assets under

management at May 31, 1998 compared to 0.50% in the prior fiscal year. C.I.'s operating margin (measured as management fees less the net operating expenses as described above, as a percentage of mutual/segregated funds under management) was 1.00% compared to 0.99% for the prior fiscal year.

Distribution fees to limited partnerships totalled \$11.3 million, down from \$11.4 million in fiscal 1997. As a percentage of average assets, distribution fees to limited partnerships declined from 0.20% to 0.16%, reflecting a lower percentage of C.I.'s overall assets under management having been financed by limited partnerships.

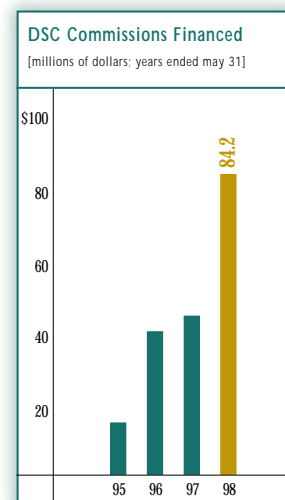
Amortization of deferred sales commissions represented C.I.'s largest expense increase, rising from \$26.4 million in fiscal 1997 to \$47.3 million in fiscal 1998.

Net income for the year ended May 31, 1998 was \$8.6 million compared to \$9.5 million in the same period in 1997. Though operating earnings were up substantially from fiscal 1997, the impact of the additional \$20.9 million in amortization of sales commissions had the effect of reducing net earnings.



Fund operating expenses declined in 1998 reflecting efficiencies of asset growth and investments in technology from prior years and are currently at a marginal rate of 0.38%.

A significant increase in sales in 1998 resulted in C.I. financing over \$84 million in sales commissions.



FINANCING AND LIQUIDITY

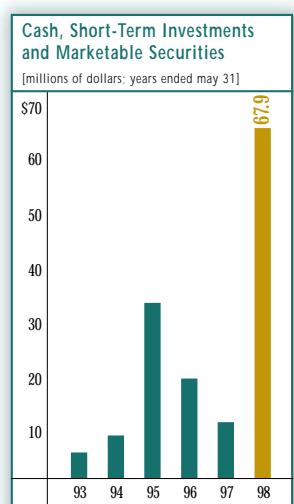
C.I.'s capital requirements are primarily to fund commissions arising from the sale of funds on a deferred sales charge basis. In fiscal 1998, C.I. financed \$84.2 million in sales commissions, up from \$45.6 million in fiscal 1997. In addition, during fiscal 1998, C.I. used \$23.1 million to repurchase 1.6 million common shares at an average price of \$14.06 per share. This compares to \$4.9 million used to repurchase 0.7 million common shares at an average price of \$6.79 per share in fiscal 1997.

These funding requirements were met by cash and short-term investments of \$7.8 million at May 31, 1997, the issuance of 5.08 million common shares in a public offering at an average price of \$19.75 per share for total gross proceeds of \$100.33 million and an operating cash flow in fiscal 1998 of \$64.3 million (up from \$45.1 million in 1997).

At May 31, 1998, C.I. had cash, short-term investments, and marketable securities totalling \$67.9 million (\$12.1 million at May 31, 1997) and an undrawn \$30 million line of credit with a Canadian chartered bank. In June 1998, C.I. repurchased the notes issued under its securitization vehicle at a total cost of \$28.7 million plus accrued interest.

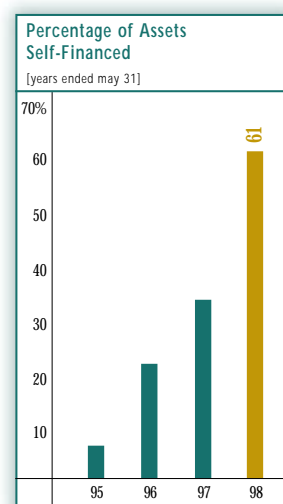
Since January 1, 1995, C.I. has used internally generated cash flow and existing cash resources to finance sales commissions. After November 1997, the money obtained from the public share offering significantly added to the available cash resources. As a result, by May 31, 1998, 61% of mutual fund assets were financed by C.I.'s cash resources (adjusted for the securitization repurchased in June 1998), up from 35% financed by cash resources and 15% financed by securitization at May 31, 1997. The self-financed assets had a current redemption value of \$203 million (\$5.52 per share) at May 31, 1998 compared to \$106 million (\$3.23 per share) at May 31, 1997. At May 31, 1998, 24% of C.I.'s assets were financed by limited partnerships, down from 35% at May 31, 1997. The front-end load sales assets at May 31, 1998 were 15% of assets under management.

Capital expenditures incurred during the year ended May 31, 1998 totalling \$2.1 million were primarily for computer hardware and software related to the improvement of systems technology and additional space requirements. Depreciation charges on these assets are recoverable from the funds.



Proceeds of 5 million shares issued in October 1997 resulted in a significant increase in financial resources.

The majority of C.I.'s fund assets are now self-financed which at May 31, 1998 had current redemption fees of \$203 million (adjusted for securitization repurchase).



OUTLOOK

At May 31, 1998, the net asset value of the funds was \$8,302 million. Should assets remain at this level during fiscal 1999, C.I. would expect total revenues and operating cash flow to increase from fiscal 1998. Net income will be affected by the overall level of sales and the resulting impact on the amortization of deferred sales commissions.

THE YEAR 2000 ISSUE

The historical use of two digits to indicate the year in computer software could potentially cause software applications to misinterpret dates with the arrival of the year 2000. Many companies face a high risk of application problems due to their reliance on dates in their daily operations and to their dependence on other entities to provide key services to help manage their operations and the services provided to their security holders.

At C.I., we realize the importance of the year 2000 issue and have already taken the steps necessary to address the problem. A Year 2000 project was initiated in 1997 to review our systems and implement any actions necessary

to eliminate or significantly reduce the risk. The project has been staffed with highly skilled people and supplied with the necessary technology. Also, as part of our initiative, we have been working with our investment advisers, business partners, service providers and vendors to verify their obligations and monitor their progress. Systems supplied by outside sources have been vigorously reviewed and tested for compliance; non-compliant software has been replaced during our regular process of software upgrading.

The Year 2000 issue is an additional business risk that has to be taken into account when investing. Our investment advisers are aware of the risks involved and are considering the issue in their investment strategy by focusing not only on the specific entities in which they invest but also on the general environment in which the entities operate.

The expenditures incurred to date and the future anticipated expenses will not be material. Our project deadline is targeted for fall 1998. To date, we are on schedule.

MANAGEMENT'S REPORT
TO SHAREHOLDERS

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

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.

G. Raymond Chang [signed]
President and Chief Executive Officer

Stephen A. MacPhail [signed]
*Executive Vice-President
and Chief Financial Officer*

August 26, 1998

C O N S O L I D A T E D

F I N A N C I A L S T A T E M E N T S

AUDITORS' REPORT

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

We have audited the consolidated balance sheets of C.I. Fund Management Inc. as at May 31, 1998 and 1997 and the consolidated statements of income and retained earnings and changes in financial position 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 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, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada,
July 3, 1998.

Ernst & Young [signed]
Chartered Accountants

C O N S O L I D A T E D
F I N A N C I A L S T A T E M E N T S

CONSOLIDATED BALANCE SHEETS

as at may 31,	1998 \$	1997 \$
ASSETS		
Current		
Cash and short-term investments <i>(note 4)</i>	61,382,122	7,820,673
Marketable securities, at cost which approximates market value	6,485,217	4,300,320
Accounts receivable and prepaid expenses	5,503,477	4,560,098
Income taxes recoverable	771,718	1,175,964
Total current assets	74,142,534	17,857,055
Advance to C.I. FEES Trust <i>(note 4)</i>	748,195	2,000,000
Capital assets <i>(note 5)</i>	6,333,446	5,997,039
Deferred sales commissions, net of accumulated amortization of \$86,814,096 (1997-\$39,469,884)	100,757,662	63,933,377
Other assets <i>(note 6)</i>	7,397,953	7,472,950
	189,379,790	97,260,421
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	15,520,418	12,230,838
Total current liabilities	15,520,418	12,230,838
Deferred lease inducement	2,108,736	2,283,692
Deferred income taxes	31,595,544	26,909,297
Total liabilities	49,224,698	41,423,827
Shareholders' equity		
Share capital <i>(note 8)</i>	130,423,379	32,195,984
Retained earnings	9,731,713	23,640,610
Total shareholders' equity	140,155,092	55,836,594
	189,379,790	97,260,421

See accompanying notes

On behalf of the Board:	G. Raymond Chang [signed]	William T. Holland [signed]
	Director	Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

years ended may 31,	1998 \$	1997 \$
REVENUE		
Management fees	140,288,115	112,588,105
Administration fees and other income	3,590,609	1,887,019
Expenses charged to mutual funds	28,876,570	26,778,224
Redemption fees	8,382,570	4,104,022
Total revenues	181,137,864	145,357,370
Net fees paid to securitization	(7,389,561)	(6,762,262)
	173,748,303	138,595,108
EXPENSES		
Selling, general and administrative	46,469,561	40,723,073
Investment adviser fees	16,328,550	13,125,608
Trailer fees	34,904,411	28,879,917
Distribution fees to limited partnerships	11,258,940	11,440,612
Amortization of deferred sales commissions	47,344,212	26,435,540
Other	1,106,421	450,000
	157,412,095	121,054,750
Income before income taxes	16,336,208	17,540,358
Provision for income taxes		
Current	1,236,160	831,512
Deferred	6,549,437	7,179,676
	7,785,597	8,011,188
Net income for the year	8,550,611	9,529,170
Retained earnings, beginning of year	23,640,610	21,008,162
Share issues expense, net of income taxes	(2,312,460)	—
Cost of shares repurchased in excess of stated value <i>(note 8)</i>	(17,308,250)	(4,268,283)
Dividends	(2,838,798)	(2,628,439)
Retained earnings, end of year	9,731,713	23,640,610
Earnings per share	0.24	0.29
Fully diluted earnings per share	0.23	0.27

See accompanying notes

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

years ended may 31,	1998 \$	1997 \$
OPERATING ACTIVITIES		
Net income for the year	8,550,611	9,529,170
Add items not involving cash		
Depreciation and amortization	1,585,701	1,488,509
Deferred income taxes	6,549,437	7,179,676
Amortization of deferred sales commissions	47,344,212	26,435,540
Other	300,000	450,000
Operating cash flow	64,329,961	45,082,895
Net change in non-cash working capital balances relating to operations	2,750,447	3,870,256
Cash provided by operating activities	67,080,408	48,953,151
INVESTING ACTIVITIES		
Additions to capital assets, net	(2,092,067)	(1,644,854)
Purchase of marketable securities, net	(2,184,897)	(3,078,341)
Sales commissions	(84,168,497)	(45,637,102)
Other assets	(230,000)	(4,422,000)
Deferred lease inducement	—	298,697
Cash used in investing activities	(88,675,461)	(54,483,600)
FINANCING ACTIVITIES		
Repayment of advance to C.I. FEES Trust	1,251,805	—
Repurchase of share capital <i>{note 8}</i>	(23,143,347)	(4,925,231)
Issue of share capital <i>{note 8}</i>	104,062,492	3,011,852
Share issue expenses	(4,175,650)	—
Cash provided by (used in) financing activities	77,995,300	(1,913,379)
DIVIDENDS PAID	(2,838,798)	(2,628,439)
Net increase (decrease) in cash during the year	53,561,449	(10,072,267)
Cash and short-term investments, beginning of year	7,820,673	17,892,940
Cash and short-term investments, end of year	61,382,122	7,820,673
Operating cash flow per share	1.80	1.37
Fully diluted operating cash flow per share	1.68	1.26

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are summarized as follows:

Basis of presentation

The consolidated financial statements include the accounts of C.I. Fund Management Inc. [the "Corporation"], C.I. Mutual Funds Inc. ["CIMF"] and its wholly-owned subsidiaries, Canadian International GP Limited and C.I. Fund Services Inc.

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

Investment in limited partnership

During part of fiscal 1997 the investment in the limited partnership was considered a temporary investment and was carried at the lower of cost and net realizable value. In the third quarter of fiscal 1997 the investment was reclassified as a long-term investment. As a result, effective in the third quarter of fiscal 1997 the investment is being amortized over its estimated life using a 10% annual diminishing balance basis. Amortization or adjustments to the net realizable value of the investment in limited partnership is included in other expenses in the consolidated statements of income and retained earnings. The carrying value of the investment approximates market value based on the net present value of estimated future cash flows.

Short-term investments

Short-term investments are carried at cost which approximates market value.

Capital assets

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

Computer hardware	30% diminishing balance or straight-line over four years
Computer software	50% straight-line or straight-line over four years
Office equipment	20% diminishing balance
Trademark	20% straight-line
Leasehold improvements	straight-line over the term of the lease

Revenue recognition

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

Administrative fees are recognized as earned.

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

Deferred sales commissions

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

Foreign currency transactions

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect on that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income.

Goodwill

Goodwill is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over 40 years.

Earnings and operating cash flow per share

Earnings and operating cash flow per share have been computed using the weighted average number of common shares outstanding. Fully diluted earnings and operating cash flow per share have been computed using the weighted average number of common shares outstanding assuming exercise of stock options.

Deferred lease inducement

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

2. OPERATIONS

The Corporation is incorporated under the laws of Ontario. The primary business of the Corporation is the marketing, management and administration of the C.I. Mutual Funds and the C.I. Segregated Funds [the "Funds"] which consists of the following Funds:

Fund	Month of establishment of Fund
C.I. Pacific Fund	October, 1981
C.I. Global Fund	February, 1986
C.I. Sector Fund Limited	July, 1987
C.I. Money Market Fund	October, 1990
Hansberger European Fund	September, 1991
C.I. Emerging Markets Fund	September, 1991
C.I. World Bond Fund	August, 1992
C.I. American Fund	August, 1992
C.I. Canadian Balanced Fund	January, 1993
C.I. Canadian Bond Fund	January, 1993
C.I. Canadian Growth Fund	January, 1993
C.I. Global Bond RSP Fund	August, 1993
C.I. Global Equity RSP Fund	August, 1993
C.I. Latin American Fund	September, 1993
Hansberger Asian Fund	September, 1993
C.I. Global High Yield Fund	June, 1994
C.I. International Balanced Fund	September, 1994
C.I. Canadian Income Fund	October, 1994
C.I. International Balanced RSP Fund	October, 1994
C.I. US Money Market Fund	January, 1995
C.I. American RSP Fund	October, 1995
Hansberger Value Fund	June, 1996
Hansberger International Fund	June, 1996
Hansberger Global Small Cap Fund	June, 1996
Hansberger Developing Markets Fund	June, 1996
Monarch Canadian Fund	October, 1996
Monarch Dividend Fund	October, 1996

Fund	Month of establishment of Fund
Monarch Canadian Resource Fund	April, 1997
Harbour Fund	June, 1997
Harbour Growth & Income Fund	June, 1997
Harbour Explorer Fund	October, 1997
C.I. American Segregated Fund	October, 1997
C.I. Hansberger Value Segregated Fund	October, 1997
C.I. Global Segregated Fund	October, 1997
C.I. Money Market Segregated Fund	October, 1997
C.I. Harbour Segregated Fund	October, 1997
C.I. Harbour Growth & Income Segregated Fund	October, 1997

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 certain limited partnerships *[note 3]* and C.I. FEES Trust [the "Trust"] *[note 4]*.

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

3. LIMITED PARTNERSHIPS

During the period up to January 21, 1994 and from June 10, 1994 to December 31, 1994, 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 of up to 0.6% of 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, 1998, the net asset value of securities of the Funds financed by the limited partnerships was \$1,985 million [1997-\$2,211 million].

4. C.I. FEES TRUST

During the period January 21, 1994 to June 9, 1994, selling commissions on sales of securities of the Funds under the deferred sales charge method were paid by the Trust which the Trust financed by the issuance of notes repayable with interest over a period of 7 years. The notes mature on February 1, 2001 and the interest rate on the notes is 6.65%. The outstanding balance of the notes at May 31, 1998 is \$29,128,525 [1997 - \$38,487,051]. The Trust has assumed responsibility for providing transfer agency functions, accounting services, daily valuation and investor reporting services for the securities financed. In return, the Trust receives any redemption fees paid with respect to the financed securities and receives annual distribution and administrative fees totalling a maximum of 1.35% of the net asset value of the outstanding financed securities.

The Trust has entered into a sub-administration agreement with the Corporation to provide the above services. In return, the Corporation receives a fee equal to the above fees earned by the Trust net of required interest and principal payments on the notes and any other expenses of the Trust. The Corporation's fees from the Trust, which are recognized in income on an accrual basis, are not payable by the Trust unless certain financial ratios are maintained in the Trust. Additionally,

the Corporation has advanced \$748,195 to the Trust as at May 31, 1998 [1997 - \$2,000,000]. Recovery of this advance is also subject to the maintenance of certain financial ratios in the Trust. As at May 31, 1998 the Trust was in compliance with these ratios.

On June 29, 1998, the Corporation purchased all of the outstanding notes of the Trust. The purchase price of \$28,685,146 plus accrued interest was \$364,486 in excess of the book value of the notes.

5. CAPITAL ASSETS

Capital assets consist of the following:

	May 31, 1998		May 31, 1997	
	Cost \$	Accumulated depreciation and amortization \$	Cost \$	Accumulated depreciation and amortization \$
Computer hardware and software	9,498,564	6,231,400	7,836,729	4,941,720
Office equipment	2,110,759	1,030,690	1,851,897	819,784
Leasehold improvements	2,806,696	820,483	2,635,326	577,076
Trademark	100,000	100,000	100,000	88,333
	14,516,019	8,182,573	12,423,952	6,426,913
Less accumulated depreciation and amortization	8,182,573		6,426,913	
Net book value	6,333,446		5,997,039	

6. OTHER ASSETS

Other assets consist of the following:

	1998 \$	1997 \$
Investment in limited partnership	2,581,463	2,881,463
Contingency fund deposits	20,000	30,000
Goodwill, net of accumulated amortization	134,490	139,487
Long-term portfolio investment, at cost	4,422,000	4,422,000
Other	240,000	--
	7,397,953	7,472,950

Management believes that the cost of the long-term portfolio investment approximates its fair market value.

7. CREDIT FACILITY

The Corporation has arranged a credit facility with a Canadian chartered bank of \$30 million for the purpose of financing sales commissions. As at May 31, 1998, this facility is undrawn.

8. SHARE CAPITAL

Details with respect to share capital are as follows:

	Common shares	
	Number of shares	Stated value \$
Authorized		
Unlimited preference shares		
Unlimited common shares		
Issued		
(reflects 2 for 1 stock split in April 1998)		
May 31, 1996	32,959,526	29,841,080
Share repurchase	(725,600)	(656,948)
Exercise of stock options	550,864	3,011,852
May 31, 1997	32,784,790	32,195,984
Issue of share capital	5,080,000	100,330,000
Share repurchase	(1,646,200)	(5,835,097)
Exercise of stock options	653,132	3,732,492
May 31, 1998	36,871,722	130,423,379

On April 8, 1998, the Board of Directors approved a two-for-one stock split of the common shares of the Corporation. The stock split was effected by declaring a stock dividend of one additional common share for each common share of the Corporation issued and outstanding on the dividend record date of April 21, 1998.

In November 1997, the Corporation completed a public offering of 5,080,000 common shares for gross proceeds of \$100,330,000. The expenses of the offering net of income taxes have been charged to retained earnings.

The Corporation has established an incentive stock option plan [the "Plan"] for the executives, key employees and directors of the Corporation. The maximum number of common shares that may be issued under the Plan is 4,880,364. As at May 31, 1998, there are 3,498,714 shares reserved for issue on exercise of stock options. These options may be exercised at prices ranging from \$5.375 to \$19.50 per common share and expire at dates up to 2006.

During fiscal 1998, 1,646,200 common shares [1997 - 725,600] were repurchased under a normal course issuer bid at an average cost of \$14.06 per share [1997 - \$6.79] for a total consideration of \$23,143,347 [1997 - \$4,925,231]. Retained earnings was reduced by \$17,308,250 [1997 - \$4,268,283] for the cost of the shares in excess of their stated value.

9. INCOME TAXES

The components of the Corporation's effective income tax provision rates are as follows:

	1998	1997
	%	%
Combined Canadian federal and provincial income tax rate	44.6	44.6
Increase (decrease) in taxes resulting from		
Large corporations tax	2.3	1.3
Other	0.8	(0.2)
Effective income tax rate	47.7	45.7

10. LEASE COMMITMENTS

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

Year ending May 31	\$
1999	1,411,067
2000	828,795
2001	461,168
2002	427,223
2003	325,860
2004 and beyond	1,832,062

11. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 1998 financial statements.

C O R P O R A T E D I R E C T O R Y

C.I. FUND MANAGEMENT INC. DIRECTORS AND OFFICERS

G. Raymond Chang
*President, Chief Executive Officer
and Director*

William T. Holland
*Executive Vice-President,
Chief Operating Officer and Director*

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

Michael J. Killeen
*General Counsel and
Corporate Secretary*

George A. Mochizuki
Corporate Controller

Ronald D. Besse
*Chairman of the Board
and Director*

A. Winn Oughtred
Director

George W. Oughtred
Director

David J. Riddle
Director

C.I. MUTUAL FUNDS INC. MANAGEMENT

Executive

G. Raymond Chang
*President and
Chief Executive Officer*

William T. Holland
*Executive Vice-President
and Chief Operating Officer*

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

Peter W. Anderson
*Executive Vice-President,
Sales and Marketing*

Sales and Marketing

Howard J. Atkinson
*Senior Vice-President,
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Robert J. Costigan
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K. Michael Kelly
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Carey W. McIntee
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*Senior Vice-President,
Administration*

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*General Counsel and
Corporate Secretary*

Lorraine P. Blair
*Vice-President,
Human Resources*

Munir T. Issa
*Vice-President,
Information Systems*

Douglas J. Jamieson
Vice-President, Finance

George A. Mochizuki
Corporate Controller

David C. Pauli
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TRADING SYMBOL

C.I. Fund Management Inc.
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Exchange under the symbol
"CIX".

This Annual Report can be downloaded from C.I.'s website at www.cifunds.com



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