CI Financial

# CI Financial First Quarter Report | March 31, 2007

Q1

# Financial Highlights

| *(in thousands, except per unit amounts)* | As at March 31, 2007 | As at February 28, 2006 | % change |
|---|---|---|---|
| Fee-earning assets | 84,389,569 | 73,664,583 | 15 |
| Assets under management | 64,571,023 | 56,015,041 | 15 |
| Units outstanding | 279,939 | 285,679 | (2) |

| | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 | % change |
|---|---|---|---|
| Average assets under management | 63,705,893 | 55,276,960 | 15 |
| Gross sales of managed funds | 3,512,864 | 2,800,148 | 25 |
| Redemptions of managed funds | 2,598,909 | 2,162,564 | 20 |
| Net sales of managed funds | 913,955 | 637,584 | 43 |
| Net income | 142,122 | 73,096 | 94** |
| Earnings per unit | 0.51 | 0.26 | 96** |
| EBITDA* | 175,645 | 138,896 | 26 |
| EBITDA* per unit | 0.63 | 0.49 | 29 |
| Pre-tax operating earnings* per unit | 0.581 | 0.525 | 11 |
| Distributions paid per unit | 0.54 | 0.18 | 200** |
| Average units outstanding | 280,036 | 285,702 | (2) |

**EBITDA (Earnings before interest, taxes, depreciation and amortization) and pre-tax operating earnings are not standardized earnings measures prescribed by GAAP; however, management believes that most of its unitholders, creditors, other stakeholders and investment analysts prefer to include the use of these performance measures in analyzing CI's results. CI's method of calculating these measures may not be comparable to similar measures presented by other companies. A reconciliation of EBITDA to net income is provided on page 10. A reconciliation of pre-tax operating earnings to income before income taxes is provided on page 9.*

***The reason for significantly increased year-over-year comparisons is a result of the income trust conversion in June 2006.*

# Dear Unitholders,

In the first quarter of 2007, CI enjoyed another three months of strong market performance and net sales of its funds. Our assets under management continued to hit new highs as global equity markets provided strong returns. The S&P/TSX Composite Index rose 2.6% over the three months, while the MSCI World Index returned 2.6% in U.S. dollar terms. Markets in the U.S. were mixed, as the S&P 500 Index gained 0.6% and the Dow Jones Industrial Average fell 0.3%. These foreign returns were reduced by the 1.0% gain in the Canadian dollar versus the U.S. currency.

Against this backdrop of rising markets, industry net sales of mutual funds as estimated by the Investment Funds Institute of Canada (IFIC) were very strong. IFIC reported $17.1 billion in net sales, up from $9.8 billion in the first quarter of last year. CI posted net sales of $914 million this year, versus $638 million in the comparable quarter last year.

## Operating Review

CI's average assets under management were up 15% year-over-year and 5% quarter-over-quarter for the three months ended March 31, 2007. CI's net income was $142.1 million, or $0.51 per unit, up 94% from $73.1 million, or $0.26 per unit. Due to CI's income trust conversion, it reported a tax recovery of $5.0 million this quarter, versus an income tax expense of $39.4 million in the comparable quarter a year ago.

One measure of CI's underlying profitability is EBITDA, which ignores income taxes. It was $175.6 million, or $0.63 per unit, up 26% from $138.9 million, or $0.49 per unit. While the numbers are strong this year over last year, our numbers are flat to down when compared to the previous quarter ended December 31, 2006, where net income was $0.53 per unit and EBITDA was $0.65 per unit. CI recorded equity-based compensation expenses of $6.4 million this quarter against a recovery of $0.5 million last quarter, which had an impact on income and EBITDA of approximately $0.02 per unit. As well, we have seen a continued erosion of our asset management operating margin and the first quarter is a short quarter, which affects total revenues. We have, however, been diligent in controlling selling, general and administrative expenses, which have grown at a rate far below the growth in our assets under management in recent years. In fact, in the 13 quarters since our acquisition of Assante Corporation in November 2003, SG&A expenses (adjusted for equity-based compensation) have declined from 0.65% to 0.43% of average assets under management.

Our assets under management at April 30, 2007, net of the assets received in our acquisition of Rockwater Capital Corp., were $65.3 billion – an increase of $6.8 billion from a year earlier and an increase of 2.5% from the average assets under management for the first quarter of $63.706 billion.

## Outlook

CI's acquisition of Rockwater in April added $3.7 billion in assets under management at KBSH Capital Management Inc. and Lakeview Asset Management Inc. and $9.8 billion in administered assets at Blackmont Capital Inc. In addition to expanding the scale of our operations, this acquisition has diversified our channels of distribution and provided CI with an entry into the capital markets business through Blackmont. The new businesses are expected to contribute immediately to CI's bottom line.

CI reported net sales in April of $134 million, up from $111 million in the same month a year ago. CI's top-selling funds continue to be selected Canadian and global equity funds and Canadian balanced funds.

Also in April, CI launched Sun*Wise* Elite Plus, an important new product offered in partnership with Sun Life Financial. Sun*Wise* Elite Plus is a guaranteed retirement income product – a new category in Canada and one that has been very successful in the United States. Its introduction has been well received by financial advisors across Canada.

The Board of Trustees declared monthly distributions of $0.18 per share payable on June 15, July 13 and August 15, 2007 to unitholders of record on May 31, June 30 and July 31, 2007, respectively.

William T. Holland
Chief Executive Officer

Stephen A. MacPhail
President and Chief Operating Officer

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") dated May 3, 2007 presents an analysis of the financial position of CI Financial Income Fund and its subsidiaries ("CI") as at March 31, 2007 compared with December 31, 2006, and the results of operations for the three months ended March 31, 2007 compared with the three months ended February 28, 2006.

Financial information, except where noted otherwise, is presented in accordance with Canadian generally accepted accounting principles ("GAAP") and amounts are expressed in Canadian dollars. The principal subsidiaries referenced herein include CI Investments Inc. ("CI Investments"), United Financial Corporation ("United") and Assante Wealth Management (Canada) Ltd. ("AWM"). The Asset Management segment of the business includes the operating results and financial position of CI Investments and United. The Asset Administration segment includes the operating results and financial position of AWM and its subsidiaries, including Assante Capital Management Ltd. ("ACM"), Assante Financial Management Ltd. ("AFM") and IQON Financial Management Inc. ("IQON").

The MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. These statements involve risks and uncertainties, are based on assumptions and estimates, and therefore actual results may differ materially from those expressed or implied by CI. Factors that may cause such differences include, but are not limited to, general economic and market conditions including interest and foreign exchange rates, global financial markets, legislative and regulatory changes, industry competition, technological developments and catastrophic events. The reader is cautioned against undue reliance on these forward-looking statements.

CI converted to an income trust on June 30, 2006 and all discussion and reference to CI should be considered to be a continuation of the record of the predecessor organization, CI Financial Inc. All references to "units", "unitholders" and "distributions" are subsequent to June 30, 2006 and are used to refer to "shares", "shareholders" and "dividends", respectively, prior to conversion.

This MD&A includes several non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. However, management believes that most unitholders, creditors, other stakeholders and investment analysts prefer to include the use of these financial measures in analyzing CI's results. These non-GAAP measures and reconciliations to GAAP where necessary, are shown as highlighted footnotes to the discussion throughout the document.

## Summary of Quarterly Results

*(millions of dollars, except per unit amounts)*

| | Fiscal Year Ending December 31 | | | Fiscal Year Ending May 31 | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006* | | 2006 | | | | 2005 |
| INCOME STATEMENT DATA | Q1 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Management fees | 314.6 | 306.7 | 293.8 | 294.9 | 277.5 | 267.6 | 270.0 | 261.5 |
| Administration fees | 40.8 | 37.3 | 31.1 | 34.5 | 35.3 | 31.0 | 30.9 | 30.9 |
| Other revenues | 13.6 | 15.0 | 12.1 | 14.6 | 17.6 | 17.2 | 32.3 | 18.1 |
| Total revenues | 369.0 | 359.0 | 337.0 | 344.0 | 330.4 | 315.8 | 333.2 | 310.5 |
| Selling, general and administrative | 73.4 | 64.1 | 66.2 | 100.0 | 93.6 | 79.8 | 80.2 | 68.0 |
| Trailer fees | 89.0 | 85.8 | 81.1 | 80.5 | 71.8 | 68.9 | 69.7 | 68.7 |
| Investment dealer fees | 31.9 | 28.5 | 23.9 | 26.1 | 26.6 | 23.4 | 23.3 | 22.4 |
| Amortization of deferred sales commissions | 27.4 | 25.6 | 24.1 | 22.4 | 20.4 | 18.8 | 17.5 | 16.1 |
| Interest expense | 7.6 | 6.6 | 5.4 | 4.5 | 3.2 | 3.0 | 3.2 | 3.7 |
| Other expenses | 2.6 | 2.8 | 2.5 | 3.3 | 2.3 | 3.9 | 2.4 | 2.2 |
| Total expenses | 231.9 | 213.4 | 203.2 | 236.8 | 217.9 | 197.8 | 196.3 | 181.1 |
| Income before income taxes | 137.1 | 145.6 | 133.8 | 107.2 | 112.5 | 118.0 | 136.9 | 129.4 |
| Income taxes | (5.0) | (4.3) | (4.6) | 37.9 | 39.4 | 42.3 | 45.9 | 48.6 |
| Net income | 142.1 | 149.9 | 138.4 | 69.3 | 73.1 | 75.7 | 91.0 | 80.8 |
| Earnings per unit | 0.51 | 0.53 | 0.49 | 0.24 | 0.26 | 0.26 | 0.32 | 0.28 |
| Distributions paid per unit | 0.54 | 0.5025 | 0.5025 | 0.18 | 0.18 | 0.18 | 0.16 | 0.15 |

**The results reflect the three months ended September 30, 2006 and December 31, 2006.*

## Overview

CI is a diversified wealth management firm and one of Canada's largest independent investment fund companies. CI also became one of the country's largest income trusts in June 2006. The conversion changed the publicly traded entity from a corporation to a trust and prompted the change in CI's year-end to December 31 from May 31. Accordingly, the results for the three months ended February 28, 2006 are used as comparative figures for the three months ended March 31, 2007.

The principal business of CI is the management, marketing, distribution and administration of mutual funds, segregated funds, structured products and other fee-earning investment products for Canadian investors. They are distributed primarily through brokers, independent financial planners and insurance advisors, including ACM, AFM and IQON financial advisors. CI operates through two business segments, Asset Management and Asset Administration. The Asset Management segment provides the majority of CI's income and derives its revenues principally from the fees earned on the management of several families of mutual, segregated, pooled and closed-end funds, structured products and discretionary accounts. The Asset Administration segment derives its revenues principally from commissions and fees earned on the sale of mutual funds and other financial products, and ongoing service to clients.

On April 4, 2007, CI acquired Rockwater Capital Corporation ("Rockwater") and will consolidate results from Rockwater beginning with the second quarter ending June 30, 2007. With Rockwater, CI acquired Blackmont Capital Inc. ("Blackmont"), a full-service investment dealer, KBSH Capital Management Inc., an investment counselling firm, and Lakeview Asset Management Inc., a mutual fund company.

## Fee-Earning Assets and Sales

Total fee-earning assets, which include CI mutual and segregated funds, United funds, structured products (collectively, assets under management or AUM), administered/other assets and AWM assets under administration (net of United funds) at March 31, 2007 were $84.4 billion, an increase of 11% from $76.3 billion at March 31, 2006. As shown in the following chart, these assets are represented by $53.6 billion in CI mutual and segregated funds, $10.1 billion in United funds, $0.9 billion in structured products, $1.9 billion in administered/other assets such as labour-sponsored funds, and $17.9 billion in AWM assets under administration (net of United funds previously described).

### FEE-EARNING ASSETS

AS AT MARCH 31

| *(in billions)* | 2007 | 2006 | % change |
|---|---|---|---|
| CI mutual and segregated funds | $53.6 | $47.8 | 12 |
| United funds | 10.1 | 9.7 | 4 |
| Structured products | 0.9 | 1.1 | (18) |
| Total assets under management | 64.6 | 58.6 | 10 |
| Administered/other funds | 1.9 | 1.4 | 36 |
| AWM assets under administration (net of United funds) | 17.9 | 16.3 | 10 |
| Total fee-earning assets | $84.4 | $76.3 | 11 |

Assets under management form the majority of CI's fee-earning assets and provide most of its revenue and net income. The growth in assets under management during the three months ended March 31, 2007 is detailed in the table below.

| *(in billions)* | 3 months ended March 31, 2007 |
|---|---|
| AUM at December 31, 2006 | $62.7 |
| Gross sales | 3.5 |
| Redemptions | 2.6 |
| Net sales | 0.9 |
| Market performance | 1.0 |
| AUM at March 31, 2007 | $64.6 |

Average assets under management were $63.706 billion for the three months ended March 31, 2007, an increase of 15% from $55.277 billion for the three months ended February 28, 2006. 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 average assets was the result of strong market performance and positive sales of CI's funds.

Gross sales of CI's managed funds were $3.5 billion for the three months ended March 31, 2007 and $2.8 billion for the three months ended February 28, 2006. Net sales (gross sales less redemptions) were $914.0 million for the quarter, compared with $637.6 million for the quarter ended February 28, 2006. Strong relative fund performance and overall industry sales increases led to improved gross and net sales.

Net sales of mutual funds reported by the Investment Funds Institute of Canada ("IFIC") were up $7.3 billion to $17.1 billion for the three months ended March 31, 2007 from industry net sales of $9.8 billion for the same three-month period last year. Though sales and assets reported by IFIC do not give a comprehensive view of CI's sales and assets, they are helpful as an indicator of trends affecting a significant portion of CI's business.

Fee-earning assets at April 30, 2007 totalled $98.6 billion, an increase of $14.2 billion or 17% during the month. This increase is due to strong market performance, positive net sales of mutual and segregated funds, and CI's acquisition of Rockwater. Fee-earning assets are represented by assets under management of $69.0 billion, $1.9 billion in administered/other assets such as labour-sponsored funds, $17.9 billion in AWM assets under administration (net of United funds), and $9.8 billion in assets under administration at Blackmont. Assets under management consisted of investment fund assets at CI and United of $64.4 billion, $885 million in structured products, and $3.7 billion of assets under management at KBSH Capital Management Inc. and Lakeview Asset Management Inc.

## Results of Operations

CI reported net income of $142.1 million for the three months ended March 31, 2007, an increase of 94% from $73.1 million reported for the three months ended February 28, 2006. On a per unit basis, CI earned $0.51 in the three months ended March 31, 2007, an increase of 96% from $0.26 reported for the three months ended February 28, 2006. The key reason for significantly increased year-over-year comparisons is the reduction in income tax expense that resulted from the income trust conversion. In the quarter ended March 31, 2007, an income tax recovery of $5.0 million was recorded, compared with a provision for income taxes of $39.4 million in the quarter ended February 28, 2006.

The results of operations include amounts recorded for equity-based compensation expense, which varies from period to period based on CI's unit price, the extent of vesting during the period and the price at which options were exercised during the period. Earnings for the three months ended March 31, 2007, were reduced by equity-based compensation expense of $6.4 million ($4.1 million after-tax). In comparison, for the three months ended February 28, 2006, earnings were reduced by equity-based compensation expense of $28.2 million ($18.0 million after-tax).

CI's pre-tax operating earnings, as set out in the table below, adjust for the impact of equity-based compensation and gains on marketable securities. Redemption fee revenue and the amortization of deferred sales commissions and fund contracts are also removed in order to correct the distortion of back-end financed assets under management.

Redemption fee revenue declined $0.7 million to $8.6 million in the three months ended March 31, 2007 from $9.3 million in the three months ended February 28, 2006. Redemption fee revenue fell as a result of a decline in back-end load assets under management. In addition, these back-end assets are aging, and therefore pay a lower redemption fee rate when redeemed.

Pre-Tax Operating Earnings

CI uses pre-tax operating earnings to assess its underlying profitability. CI defines pre-tax operating earnings as income before income taxes less redemption fee revenue and investment gains, plus equity-based compensation expense and amortization of deferred sales commissions and fund contracts.

| *(in millions, except per unit amounts)* | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Income before income taxes | $137.1 | $112.5 |
| Less: | | |
| Redemption fees | 8.6 | 9.3 |
| Gain on marketable securities and fund contracts | 0.2 | 2.4 |
| Add: | | |
| Amortization of DSC and fund contracts | 28.1 | 21.1 |
| Equity-based compensation expense | 6.4 | 28.2 |
| Pre-tax operating earnings | $162.8 | $150.1 |
| per unit | $0.581 | $0.525 |

Amortization of deferred sales commissions and fund contracts increased to $28.1 million in the three months ended March 31, 2007 from $21.1 million in the three months ended February 28, 2006. Amortization of deferred sales commissions is increasing as a result of the change in the accounting estimate of the useful life for full-load deferred sales commissions effective June 2003. The switch from 36 months to 84 months meant that the balance of deferred sales commissions at that time was no older than three years and its amortization would now be extended another four years. This caused an immediate drop in the amortization expense for that first period after the change in accounting estimate. The amortization expense now grows each period as no deferred sales commission will be fully amortized until June 2007, four years after the date of the accounting estimate change.

Pre-tax operating earnings per unit increased 11% for the three months ended March 31, 2007 compared with the three months ended February 28, 2006, while average assets under management increased 15%. A significant component of this difference is the change in operating profit margin within the Asset Management segment, as discussed in the following pages.

As shown in the table that follows, EBITDA increased to $175.6 million in the three months ended March 31, 2007 from $138.9 million in the three months ended February 28, 2006, an increase of 26%. The increase in EBITDA was the result of the lower equity-based compensation expense discussed above, and higher average assets under management even as the margin on those assets declined.

Interest expense increased due to higher debt levels, as discussed under “Liquidity and Capital Resources”. CI repurchased 194,900 trust units during the three months ended March 31, 2007 at a cost of $5.1 million. This change to CI’s capital structure results in increased financing charges and is the type of event that EBITDA is designed to disregard in order to provide information on results of operations prior to the impact of financing activities.

EBITDA

CI uses EBITDA (earnings before interest, taxes, depreciation and amortization) to assess its underlying profitability prior to the impact of its financing structure, income taxes and the amortization of sales commissions, fund contracts and capital assets. This also permits comparisons of companies within the industry, before any distortion caused by different financing methods, levels of taxation and mix of business between front- and back-end sales commission assets under management.

| *(in millions, except per unit amounts)* | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Net income | $142.1 | $73.1 |
| Add (deduct): | | |
| Interest expense | 7.6 | 3.2 |
| Income tax expense (recovery) | (5.0) | 39.4 |
| Amortization of DSC and fund contracts | 28.1 | 21.1 |
| Amortization of other items | 2.8 | 2.1 |
| EBITDA | $175.6 | $138.9 |
| per unit | $0.63 | $0.49 |
| EBITDA margin (as a % of revenue) | 47.6% | 42.0% |

# Asset Management Segment

The Asset Management segment of the business includes the operating results and financial position of CI Investments and United.

## Results of Operations

The table that follows presents the operating results for the Asset Management segment:

| *(in millions)* | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Management fees | $314.6 | $277.5 |
| Other revenue | 10.6 | 14.3 |
| Total revenue | 325.2 | 291.8 |
| Selling, general and administrative | 61.1 | 80.2 |
| Trailer fees | 92.5 | 75.9 |
| Amortization of deferred sales commissions and fund contracts | 28.4 | 21.2 |
| Other | 1.6 | 1.4 |
| Total expenses | 183.6 | 178.7 |
| Income before income taxes and non-segmented items | $141.6 | $113.1 |

Income before income taxes and interest expense for CI's principal segment was $141.6 million for the three months ended March 31, 2007, an increase of 25% from $113.1 million for the three months ended February 28, 2006.

## Revenues

Revenues from management fees were $314.6 million for the three months ended March 31, 2007, an increase of 13% from the three months ended February 28, 2006.

The increase was mainly attributable to higher average assets under management, which were 15% higher for the three months ended March 31, 2007 than the comparative asset levels for the three months ended February 28, 2006. As a percentage of average assets under management, management fees were 2.00% for the three-month period ended March 31, 2007, down from 2.04% for the three-month period ended February 28, 2006.

Management fees have decreased as a result of a continuing trend towards a higher proportion of CI's assets being Class F and Class I funds, which have lower management fees. Class F funds pay no trailer fees to advisors, who typically charge their clients a flat or asset-based fee. Class I funds have reduced management fees for institutional clients with large holdings. At March 31, 2007, there were $698.4 million and $6.2 billion in Class F and Class I funds, respectively, compared with $483.0 million and $4.3 billion at February 28, 2006.

Other revenue was $10.6 million for the three months ended March 31, 2007, a decrease of $3.7 million compared with the three months ended February 28, 2006. The three-month period ended February 28, 2006 included a $2.4 million gain on the sale of marketable securities and fund contracts.

The largest component of other revenue is redemption fees. Redemption fees were $8.6 million for the three months ended March 31, 2007. In comparison, redemption fees were $9.3 million for the three months ended February 28, 2006. The decrease in redemption fees over the comparative periods was a result of the decreased level of assets that are subject to redemption fees, and the aging of assets, which results in lower applicable redemption fee rates.

## Expenses

Selling, general and administrative ("SG&A") expenses for the Asset Management segment were $61.1 million for the three months ended March 31, 2007, a decrease of 24% from $80.2 million for the three months ended February 28, 2006. Included in SG&A are expenses relating to CI's equity-based compensation plan. The equity-based compensation expense was $6.4 million for the three months ended March 31, 2007, compared with an expense of $28.2 million for the three months ended February 28, 2006.

At December 31, 2006, based on the price per CI trust unit of $26.72, the potential payment on all vested equity-based compensation outstanding, plus the proportion of unvested amounts, was $43.0 million. Based on the price per CI trust unit at March 31, 2007 of $27.60, the equity-based compensation liability increased by $2.0 million. Though CI acknowledges that the equity-based compensation expense is clearly a cost of business that is tied to the performance of CI's trust unit price, the financial results presented hereinafter both include and exclude the expense to aid the reader in conducting a comparative analysis.

SG&A expenses net of the amount related to equity-based compensation ("net SG&A") were $54.7 million for the three months ended March 31, 2007 and $52.0 million for the three months ended February 28, 2006. As a percentage of average assets under management, net SG&A expenses were 0.35% in the three months ended March 31, 2007. This is down from 0.38% for the three months ended February 28, 2006. This indicates that CI contained spending growth significantly below growth in assets under management.

Trailer fees increased from $75.9 million for the three months ended February 28, 2006 to $92.5 million for the three months ended March 31, 2007. Net of intersegment amounts, this expense increased from $71.8 million for the three-month period ended February 28, 2006 to $89.0 million for the three-month period ended March 31, 2007.

The overall increase in trailer fees was consistent with the increase in assets under management. Also contributing to higher trailer fees is the movement towards a greater percentage of funds being sold on a front-end sales charge basis and a higher percentage of equity funds. For both of these types of funds, CI pays a higher trailer fee rate. In addition, there has been the conversion of older deferred sales charge assets to front-end units. As a percentage of average assets, trailer fees were 0.57% for the three months ended March 31, 2007, compared with 0.53% in the three months ended February 28, 2006.

For the three-month period ended March 31, 2007, CI's operating profit margin on the Asset Management segment, as a percentage of average assets under management and adjusted for the equity-based compensation expense as discussed above, was 1.09%, down from 1.13% for the three-month period ended February 28, 2006. This was a result of lower management fees and higher trailer fees offset by lower selling, general and administrative expenses.

Generally, the trend in CI's margins has been downward. Increasing competition and changes in the product platforms through which an increasing amount of funds are sold have pushed management fee rates lower. The increase in trailer fees also contributed to the decline in margins. While CI has been able to reduce SG&A expenses in the past in order to mitigate the decline in its margins, there is no assurance that it can continue to do so.

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 or 84 months immediately following the sale of the funds, for low-load or full-load deferred sales charges, respectively. The actual cash payment in any period is reported in the Consolidated Statements of Cash Flows under Investing Activities. Amortization of deferred sales commissions was $27.4 million ($27.2 million full-load and $0.2 million low-load) for the three months ended March 31, 2007, compared with $20.4 million for the three months ended February 28, 2006. The increase is consistent with the increase in deferred sales commissions paid in the last three fiscal years and the change in amortization period from 36 to 84 months beginning in June 2003.

Other expenses remained relatively flat at $1.6 million for the three-month period ended March 31, 2007 and $1.4 million for the three-month period ended February 28, 2006. Included in other expenses are distribution fees to limited partnerships, which decreased to $0.8 million for the three months ended March 31, 2007 from $0.9 million for the three months ended February 28, 2006.

Operating Profit Margin

CI monitors its operating profitability on assets under management within its Asset Management segment by measuring the operating profit margin, which is defined as management fees from funds less trailer fees and SG&A expenses net of equity-based compensation expense, calculated as a percentage of average assets under management.

| *(as a % of average AUM)* | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Management fees | 2.003% | 2.036% |
| Less: | | |
| Trailer fees | 0.567% | 0.527% |
| Net SG&A expenses | 0.349% | 0.382% |
| Operating profit margin | 1.087% | 1.127% |

## Asset Administration Segment

The Asset Administration segment includes the operating results and financial position of AWM and its subsidiaries, including ACM, AFM and IQON.

### Results of Operations

The table that follows presents the operating results for the Asset Administration segment:

| *(in millions)* | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Administration fees | $72.1 | $63.8 |
| Other revenue | 3.0 | 3.3 |
| Total revenue | 75.1 | 67.1 |
| Selling, general and administrative | 12.3 | 13.3 |
| Investment dealer fees | 58.3 | 49.3 |
| Amortization of deferred sales commissions and fund contracts | 0.4 | 0.4 |
| Other | 0.2 | 0.2 |
| Total expenses | 71.2 | 63.2 |
| Income before income taxes and non-segmented items | $3.9 | $3.9 |

The Asset Administration segment had income before income taxes and non-segmented items of $3.9 million for the three months ended March 31, 2007, consistent with the $3.9 million for the three months ended February 28, 2006.

### Revenues

Administration fees are earned on assets under administration in the AWM business and from the administration of third-party business. These fees were $72.1 million for the three-month period ended March 31, 2007, an increase of 13% from the $63.8 million for the three-month period ended February 28, 2006. Net of intersegment amounts, administration fee revenue was $40.8 million for the three months ended March 31, 2007, compared with $35.3 million for the three months ended February 28, 2006. The increase in revenue is consistent with the increase in assets under administration over the past year. Administration fees should be considered in conjunction with investment dealer fees, an offsetting expense that represents the payout to financial advisors.

Other revenues earned by the Asset Administration segment are mainly comprised of interest income on cash balances and fees related to registered accounts. For the three months ended March 31, 2007, other revenues were $3.0 million, compared with $3.3 million for the three months ended February 28, 2006.

### Expenses

Investment dealer fees are the direct costs attributable to the operation of the AWM dealerships, including payments to financial advisors based on the revenues generated from assets under administration. These fees were $58.3 million for the three months ended March 31, 2007, an increase of 18% from $49.3 million for the three months ended February 28, 2006. For the three-month period ended March 31, 2007, dealer gross margin was $13.8 million or 19% of administration fees, compared with $14.5 million or 23% for the three-month period ended February 28, 2006. The decline in gross margin as detailed in the table below represents higher payouts to financial advisors. AWM has seen advisors with large books of business joining its ranks as well as consolidation of books of business. The increase in average payout to advisors is consistent with the growth in average book size.

Selling, general and administrative ("SG&A") expenses for the segment were $12.3 million for the three months ended March 31, 2007, a decrease of 8% from $13.3 million for the three months ended February 28, 2006. The level of spending within the dealership has stabilized as CI has made significant progress towards streamlining the dealer operations. Improved net margins will be achieved if SG&A spending continues to grow at a slower rate than revenues.

## Liquidity and Capital Resources

The balance sheet for CI at March 31, 2007 reflects total assets of $2.8 billion, an increase from $2.7 billion at December 31, 2006. This is represented by an increase in current assets of $19.0 million and an increase in long-term assets of $30.9 million. CI's cash balance increased by $5.0 million in the three months ended March 31, 2007.

CI generates significant cash flows from its operations. Cash flow provided by operating activities was $148.6 million for the three months ended March 31, 2007. Excluding the change in working capital, cash flow from operations was $167.2 million. This level of cash flow was sufficient to meet distributions during the period.

CI disposed of marketable securities for net proceeds of $2.9 million in the three months ended March 31, 2007. The fair value of marketable securities at March 31, 2007 was $11.6 million. Marketable securities are comprised of seed capital investments in its funds and other portfolio investments.

Dealer Gross Margin

CI monitors its operating profitability on the revenues earned within its Asset Administration segment by measuring the dealer gross margin, which is calculated as administration fee revenue less investment dealer fees, divided by administration fee revenue. CI uses this measure to assess the margin remaining after the payout to advisors.

| *(in millions)* | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Administration fees | $72.1 | $63.8 |
| Less: | | |
| Investment dealer fees | 58.3 | 49.3 |
| | $13.8 | $14.5 |
| Dealer gross margin | 19.1% | 22.7% |

Accounts receivable and prepaid expenses increased $8.4 million. The future income tax asset increased $0.6 million during the period, reflecting the increase in the equity-based compensation liability. The increase in long-term assets resulted primarily from a $31.6 million increase in deferred sales commissions, reflecting new sales commissions incurred of $59.0 million net of $27.4 million of amortization during the three-month period ended March 31, 2007.

Liabilities increased $64.4 million during the three months ended March 31, 2007. Current income taxes payable increased $1.6 million. Future income taxes payable decreased $7.0 million mainly due to higher deferred sales commissions paid compared to the amount amortized for the quarter. In addition, the equity-based compensation liability increased $2.0 million, reflecting an increase in CI's unit price of $0.88 during the period, albeit with fewer options outstanding.

CI drew $71.9 million on its credit facility during the three months ended March 31, 2007, increasing long-term debt. At March 31, 2007, CI had drawn $648.0 million at an average rate of 4.61%, compared with $576.1 million drawn at an average rate of 4.60% at December 31, 2006. Net of cash and marketable securities, debt was $609.1 million at March 31, 2007, versus $539.3 million at December 31, 2006. Interest expenses of $7.6 million were recorded for the three months ended March 31, 2007, compared with $3.2 million for the three months ended February 28, 2006. This increase in interest expenses reflects higher average debt levels and higher interest rates. Principal repayments are only required under the facility should the bank decide not to renew the facility on its anniversary, in which case, the principal would be repaid in 48 equal monthly instalments. These payments would be payable beginning June 2008 should the bank not renew the facility. On April 9, 2007, the facility was amended for syndication to two Canadian chartered banks and to increase the amount that may be borrowed to $900 million.

CI's working capital was impacted by the changes in the equity-based compensation liability, as discussed above, but generally, CI's working capital needs are not highly seasonal and should remain relatively flat as they pertain to its underlying business.

CI's main uses of capital are the financing of deferred sales commissions, the payment of distributions on its Exchangeable LP units and trust units, the funding of capital expenditures and the repurchase of trust units through its normal course issuer bid program.

CI paid sales commissions of $59.0 million in the three months ended March 31, 2007. This compares to $50.2 million in the three months ended February 28, 2006. The amount of deferred sales commissions incurred is consistent with steady sales of back-end load units of funds in these periods of approximately $400 million per month.

During the three months ended March 31, 2007, CI incurred capital expenditures of $0.6 million, primarily for computer hardware and software.

Unitholders' equity decreased $14.5 million as CI declared distributions of $151.3 million ($151.4 million paid) during the three-month period that exceeded net income by $9.2 million and there was a transition adjustment on the implementation of a new accounting policy of $0.2 million. CI also repurchased 194,900 trust units during the three months ended March 31, 2007 at a cost of $5.1 million, or an average price of $26.24 per unit.

## Distributable Cash

CI determines the amount of cash it will distribute after considering a number of factors. Cash flow from operating activities is the primary measure of how much cash is being generated by the business. On this basis, the cash flow from operating activities for the three months ended March 31, 2007 of $148.6 million is less than the $151.4 million paid out to unitholders. However, cash flow before the net change in non-cash working capital balances was $167.2 million, indicating that prior to changes in reported working capital, there was sufficient cash flow to fund distributions. Within the change to working capital there may be specific events that cause large fluctuations. As such, cash flow from operating activities may not always be a reliable measure for underlying cash flow.

Cash flow from operating activities was impacted during the three months ended March 31, 2007 by the payment of year-end compensation that had been accrued throughout 2006, which reduced working capital.

To the extent distributions are greater than cash flow from operating activities, external financing was used to increase working capital items. It is expected that distributions will be financed from cash flow from operating activities, external financing will be used to fund capital expenditures and deferred sales commissions required for growth. The long term target ratio of debt to EBITDA is 1:1, which may be exceeded following acquisitions or during periods of growth significantly above forecast.

### Distributable Cash

CI calculates distributable cash as an indicator of how much cash is available to be paid out. Comparing this amount to the actual amount distributed provides a payout ratio. CI defines distributable cash as cash flow from operating activities less maintenance capital expenditures and maintenance deferred sales commissions. Maintenance capital expenditures are average annual amounts that CI estimates must be spent on replacement capital assets over the next five years to maintain its existing infrastructure due to disposal of capital assets. Maintenance deferred sales commissions are average annual amounts that CI estimates will be spent on sales commissions over the next five years to maintain its existing level of assets under management due to redemption of assets under management.

| *(in millions, except per unit amounts)* | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Cash flow from operating activities | $148.6 | $138.0 |
| Less: | | |
| Maintenance capital expenditures | 2.0 | 2.0 |
| Maintenance deferred sales commissions | 15.0 | 15.0 |
| Distributable cash | $131.6 | $121.0 |
| per unit | $0.47 | $0.42 |
| Equity-based compensation | 2.8 | (4.1) |
| Non-cash working capital change | 18.6 | (24.7) |
| Adjusted distributable cash | $153.0 | $92.2 |
| per unit | $0.54 | $0.32 |
| Distributions paid | $151.4 | $51.5 |
| per unit | $0.54 | $0.18 |

## Financial Instruments

On January 1, 2007, CI adopted CICA Section 3855, Financial Instruments – Recognition and Measurement, at which time all financial instruments were measured. On March 31, 2007, these financial instruments were measured at either fair value or amortized cost. Further details are available in the Notes to CI's Consolidated Financial Statements for March 31, 2007.

## Risk Factors

### Changes in Economic, Political and Market Conditions

CI's performance is directly affected by conditions in the financial markets and political conditions, including the legislation and policies of governments. The financial markets and businesses operating in the securities industry are volatile and are directly affected by, among other factors, domestic and foreign economic conditions and general trends in business and finance, all of which are beyond the control of CI. There can be no assurance that financial market performance will be favourable in the future. Any decline in financial markets or lack of sustained growth in such markets may result in a corresponding decline in performance and may adversely affect CI's assets under management, fees and/or revenues, which would reduce cash flow to CI.

### Investment Performance of the Funds

If the funds managed by CI are unable to achieve investment returns that are competitive with or superior to those achieved by other comparable investment products offered by CI's competitors, such funds may not attract assets through gross sales or may experience redemptions, which may have a negative impact on CI's assets under management. This would have a negative impact on CI's revenue and profitability.

### Competition

CI operates in a highly competitive environment, with competition based on a variety of factors, including the range of products offered, brand recognition, investment performance, business reputation, financing strength, the strength and continuity of institutional, management and sales relationships, quality of service, level of fees charged and level of commissions and other compensation paid. CI competes with a large number of mutual fund companies and other providers of investment products, investment management firms, broker-dealers, banks, insurance companies and other financial institutions. Some of these competitors have greater capital and other resources, and offer more comprehensive lines of products and services than CI. The trend toward greater consolidation within the investment management industry has increased the strength of a number of CI's competitors. Additionally, there are few barriers to entry by new investment management firms, and the successful efforts of new entrants has resulted in increased competition. CI's competitors seek to expand market share by offering different products and services than those offered by CI. There can be no assurance that CI will maintain its current standing in the market or its current market share, and that may adversely affect the business, financial condition or operating results of CI.

### Management Fees and Other Costs

CI's ability to maintain its management fee structure will be dependent on its ability to provide investors with products and services that are competitive. There can be no assurance that CI will not come under competitive pressure to lower the fees charged or that it will be able to retain the current fee structure, or with such fee structure, retain its investors in the future. Changes to management fees, commission rates, structures or service fees related to the sale of mutual funds and closed-end funds could have an adverse effect on CI's operating results. By reason of CI's implementation in 2005 of fixed administration fees for its mutual funds, a significant decrease in the value of the relevant funds, in combination with the fixed administration fees, could reduce margins and have an adverse effect on CI's operating results.

### Regulation of CI

Certain subsidiaries of CI are heavily regulated in almost all jurisdictions where they carry on business. Laws and regulations applied at the national and provincial level generally grant governmental agencies and self-regulatory bodies broad administrative discretion over the activities of CI, including the power to limit or restrict business activities. Possible sanctions include the revocation or imposition of conditions on licenses to operate certain businesses, the suspension or expulsion from a particular market or jurisdiction of any of CI's business segments or its key personnel or financial advisors, and the imposition of fines and censures. It is also possible that the laws and regulations governing a subsidiary's operations or particular investment products or services could be amended or interpreted in a manner that is adverse to CI. To the extent that existing or future regulations affecting the sale or offering of CI's product or services or CI's investment strategies cause or contribute to reduced sales of CI's products or lower margins or impair the investment performance of CI's products, CI's aggregate assets under management and its revenues may be adversely affected.

### General Business Risk and Liability

Given the nature of CI's business, CI may from time to time be subject to claims or complaints from investors or others in the normal course of business. The legal risks facing CI, its trustees, officers, employees or agents in this respect include potential liability for violations of securities laws, breach of fiduciary duty and misuse of investors' funds. Some violations of securities laws and breach of fiduciary duty could result in civil liability, fines, sanctions, or expulsion from a self-regulatory organization or the suspension or revocation of CI's subsidiaries' right to carry on their existing business. CI may incur significant costs in connection with such potential liabilities.

## Related Party Transactions

Sun Life Financial Inc. ("Sun Life") is a related party as a result of its ownership of 36.5% of CI's outstanding units. In fiscal 2003, in conjunction with the acquisition of Spectrum Investment Management Limited ("Spectrum") and Clarica Diversico Ltd. ("Diversico"), CI and Sun Life entered into an arrangement whereby, among other things, Sun Life would distribute CI's funds through Sun Life's Clarica sales force on a preferred basis and that CI would perform essentially all administrative and management services to Sun Life's Clarica and Sun*Wise* segregated funds. These activities are in the normal course of business for

CI and Sun Life is compensated at normal commercial rates as a distributor of fund products as disclosed in the funds' prospectus or other offering documents. These payments are in the form of commissions on sales of funds on a deferred sales charge basis ($16.8 million for the three months ended March 31, 2007 versus $12.3 million for the three months ended February 28, 2006) and trailer fees ($24.7 million for the three months ended March 31, 2007 versus $19.8 million for the three months ended February 28, 2006). In addition, Sun Life has agreed to reimburse CI for a portion of potential losses on certain investments related to the acquisition of IQON. Based on the estimated fair value of these investments as at March 31, 2007, CI's portion of the estimated losses is not significant to its financial position or results of operations.

## Unit Capital

As at March 31, 2007, CI had 134,146,584 trust units and 145,792,607 Exchangeable LP units outstanding. The Exchangeable LP units may be exchanged for trust units at any time.

At March 31, 2007, 4,289,590 options to purchase trust units were outstanding of which 1,525,034 options were exercisable.

## Critical Accounting Estimates

### Goodwill and Intangible Assets

At the time of acquisition, intangible assets are determined using estimates of fair value and goodwill is recorded as the excess of purchase price over identifiable assets acquired. CI performs impairment tests for goodwill and intangible assets at least annually. These tests involve estimates and assumptions. At March 31, 2007, there was no impairment to the carrying amounts nor would a reasonably likely change to material assumptions result in impairment. As well, the useful life of intangible assets is periodically reassessed and it has been determined that no change is required.

### Income Taxes

The current and future income tax assets and liabilities are recorded based on interpretation of tax legislation and assumptions about the realization and timing of future benefits and costs. A difference in interpretation by tax authorities or a change in timing or realization of reversals could result in higher or lower tax provisions.

### Deferred Sales Commissions

The commission paid on sales of low-load or full-load products are deferred and amortized over 36 or 84 months. This estimate matches the period over which redemption fees are payable by the investor in this type of product. The sum of these potential redemption fees, the terminal redemption value, is significantly greater than the balance of unamortized deferred sales commissions.

# Distributable Cash Estimates

## Maintenance Capital Expenditures

The amount of capital expenditures required over the next five years to maintain the current level of operations is estimated based on current levels of capital expenditures, capital assets currently in use and management's foreseeable plans for the business. A significant change from management's current plans for the business, such as an acquisition of another business or growth that deviates strongly from current forecasts, could cause a material change in the amount of estimated capital expenditures.

## Maintenance Deferred Sales Commissions

The amount of deferred sales commissions required over the next five years to maintain the current level of back-end financed assets under management is estimated based on current redemption levels of assets under management, the trend in these redemption levels, the mix between front-end and back-end financed redemptions, the trend in this redemption mix, the current mix between front-end and back-end financed new sales of assets under management and the trend in this sales mix. A significant change in the trend of redemption and sales levels and the mix of business could cause a material change in the amount of estimated deferred sales commissions.

# Contractual Obligations

The table that follows summarizes CI's contractual obligations at March 31, 2007.

PAYMENTS DUE BY PERIOD

| *(millions)* | Total | Less than 1 year | 2 | 3 | 4 | 5 | 5 or more years |
|---|---|---|---|---|---|---|---|
| Long-term debt | $648.0 | $0.0 | $94.5 | $162.0 | $162.0 | $162.0 | $67.5 |
| Operating leases | 43.9 | 14.5 | 10.3 | 6.4 | 4.3 | 2.3 | 6.1 |
| Total | $691.9 | $14.5 | $104.8 | $168.4 | $166.3 | $164.3 | $73.6 |

# Change in Accounting Policies

CI has retroactively adopted, without restatement of prior periods, CICA Sections 1530, Comprehensive Income; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3865, Hedges. Further details are available in the Notes to CI's Consolidated Financial Statements for March 31, 2007.

## Disclosure Controls and Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer, together with management, have designed and evaluated the effectiveness of CI's disclosure controls and procedures and have designed internal controls over financial reporting as at March 31, 2007. They have concluded that they are reasonably assured these disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, were effective and that material information relating to CI was made known to them within the time periods specified under applicable securities legislation.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management has evaluated and concluded that there were no changes that materially affect, or are reasonably likely to materially affect, CI's design of internal controls over financial reporting during the quarter ended March 31, 2007.

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Additional information relating to CI, including the most recent audited financial statements, management information circular and annual information form are available on SEDAR at www.sedar.com.

# Financial Statements

# Consolidated Statements of Income and Deficit

## FOR THE THREE MONTHS ENDED (UNAUDITED)

| *(in thousands of dollars, except per unit amounts)* | March 31, 2007 | February 28, 2006 |
|---|---|---|
| REVENUE | | |
| Management fees | 314,567 | 277,511 |
| Administration fees | 40,818 | 35,347 |
| Redemption fees | 8,643 | 9,339 |
| Gain on sale of marketable securities | 197 | 274 |
| Other income | 4,812 | 7,957 |
| | 369,037 | 330,428 |
| EXPENSES | | |
| Selling, general and administrative | 73,426 | 93,554 |
| Trailer fees | 89,019 | 71,812 |
| Investment dealer fees | 31,911 | 26,593 |
| Amortization of deferred sales commissions and fund contracts | 28,143 | 21,105 |
| Interest | 7,647 | 3,247 |
| Other | 1,808 | 1,580 |
| | 231,954 | 217,891 |
| Income before income taxes | 137,083 | 112,537 |
| Provision for (recovery of) income taxes | | |
| Current | 2,634 | 42,090 |
| Future | (7,673) | (2,649) |
| | (5,039) | 39,441 |
| Net income for the period | 142,122 | 73,096 |
| Deficit, beginning of period | (281,344) | (188,231) |
| Transition adjustment on adoption of new accounting policies [note 1(a)] | (81) | – |
| Deficit, beginning of period as restated | (281,425) | (188,231) |
| Cost of units repurchased in excess of stated value [note 3(b)] | (3,964) | (8,551) |
| Distributions declared | (151,334) | (51,422) |
| Deficit, end of period | (294,601) | (175,108) |
| Earnings per unit [note 3(d)] | 0.51 | 0.26 |

(see accompanying notes)

# Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss

## FOR THE THREE MONTHS ENDED (UNAUDITED)

| *(in thousands of dollars)* | March 31, 2007 |
|---|---|
| Net income | 142,122 |
| Other comprehensive income, net of tax | |
| Unrealized gain on available-for-sale financial assets, net of income tax of $36 | 70 |
| Total other comprehensive income, net of tax | 70 |
| Comprehensive income | 142,192 |
| Accumulated other comprehensive loss, beginning of period [note 1(a)] | (231) |
| Total other comprehensive income, net of tax | 70 |
| Accumulated other comprehensive loss, end of period | (161) |

(see accompanying notes)

# Consolidated Statements of Cash Flows

## FOR THE THREE MONTHS ENDED (UNAUDITED)

| *(in thousands of dollars)* | March 31, 2007 | February 28, 2006 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income for the period | 142,122 | 73,096 |
| Add (deduct) items not involving cash | | |
| Gain on sale of marketable securities | (197) | (274) |
| Gain on sale of fund contracts | – | (2,100) |
| Amortization of deferred sales commissions and fund contracts | 28,143 | 21,105 |
| Amortization of other | 2,772 | 2,006 |
| Equity-based compensation | 1,997 | 22,084 |
| Future income taxes | (7,673) | (2,649) |
| | 167,164 | 113,268 |
| Net change in non-cash working capital | | |
| balances related to operations | (18,573) | 24,738 |
| Cash provided by operating activities | 148,591 | 138,006 |
| INVESTING ACTIVITIES | | |
| Additions to capital assets | (607) | (1,449) |
| Purchase of marketable securities | (451) | (361) |
| Proceeds on sale of marketable securities | 3,369 | 5,274 |
| Proceeds on sale of fund contracts | – | 7,100 |
| Deferred sales commissions paid | (58,978) | (50,241) |
| Additions to other assets | (2,382) | – |
| Cash used in investing activities | (59,049) | (39,677) |
| FINANCING ACTIVITIES | | |
| Increase in long-term debt | 71,941 | 17,712 |
| Repurchase of unit capital | (5,113) | (11,500) |
| Issuance of unit capital | 37 | 30 |
| Distributions paid to unitholders | (151,387) | (51,481) |
| Cash used in financing activities | (84,522) | (45,239) |
| Net increase in cash during the period | 5,020 | 53,090 |
| Cash, beginning of period | 22,210 | 28,244 |
| Cash, end of period | 27,230 | 81,334 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid | 7,137 | 3,436 |
| Income taxes paid | 2,707 | 27,026 |

(see accompanying notes)

# Consolidated Balance Sheets

(UNAUDITED)

| *(in thousands of dollars)* | As at March 31, 2007 | As at December 31, 2006 |
|---|---|---|
| ASSETS | | |
| Current | | |
| Cash | 27,230 | 22,210 |
| Client and trust funds on deposit | 83,969 | 76,058 |
| Marketable securities | 11,630 | 14,595 |
| Accounts receivable and prepaid expenses | 94,011 | 85,588 |
| Future income taxes | 15,178 | 14,572 |
| Total current assets | 232,018 | 213,023 |
| Capital assets | 30,481 | 32,728 |
| Deferred sales commissions, net of accumulated amortization of $490,260 (December 31, 2006 - $458,706) | 511,974 | 480,388 |
| Fund contracts | 1,002,271 | 1,003,022 |
| Goodwill | 951,026 | 951,026 |
| Other assets | 61,483 | 59,215 |
| | 2,789,253 | 2,739,402 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 103,260 | 115,241 |
| Distributions payable | 100,794 | 100,848 |
| Client and trust funds payable | 83,969 | 76,058 |
| Income taxes payable | 15,055 | 13,452 |
| Equity-based compensation | 44,995 | 42,998 |
| Current portion of long-term debt | – | 84,009 |
| Total current liabilities | 348,073 | 432,606 |
| Long-term debt | 648,004 | 492,054 |
| Future income taxes | 436,578 | 443,614 |
| Total liabilities | 1,432,655 | 1,368,274 |
| Unitholders' equity | | |
| Unit capital [note 3] | 1,651,360 | 1,652,472 |
| Deficit | (294,601) | (281,344) |
| Accumulated other comprehensive loss [note 1 (a)] | (161) | – |
| Total unitholders' equity | 1,356,598 | 1,371,128 |
| | 2,789,253 | 2,739,402 |

(see accompanying notes)

# Notes to Consolidated Financial Statements

*[in thousands of dollars, except per unit amounts]*

MARCH 31, 2007 AND FEBRUARY 28, 2006 (UNAUDITED)

CI Financial Income Fund ("CI") is an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated May 18, 2006. CI's primary business is the management and distribution of a broad range of financial products and services, including mutual funds, segregated funds, financial planning, insurance, investment advice, wealth management and estate and succession planning.

As a result of the conversion to an income trust in 2006, CI's year end was changed to December 31 from May 31. Accordingly, the results of operations and cash flows for the three months ended February 28, 2006 are used as comparitive figures for the three months ended March 31, 2007.

1. ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), except that certain disclosures required for annual financial statements have not been included. Accordingly, the unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006. The unaudited interim consolidated financial statements have been prepared on a basis consistent with the accounting policies set out in the audited annual consolidated financial statements.

a) Change in Accounting Policy

On January 1, 2007, CI retroactively adopted, without restatement of prior periods, the Canadian Institute of Chartered Accountants Section 1530, Comprehensive Income; Section 3855 Financial Instruments – Recognition and Measurement; and Section 3865 Hedges. The standards require that all financial assets be classified either as held-for-trading ("HFT"), available-for-sale ("AFS"), held-to-maturity ("HTM"), or loans and receivables and that financial liabilities be classified as either as held-for-trading or other. All financial instruments are initially measured at fair value. After initial recognition, the financial instruments are measured at their fair values, except for HTM investments, loans and receivables and other financial liabilities which are measured at amortized cost using the effective interest rate method. Changes in fair value for assets classified as available-for-sale are reflected in other comprehensive income until the financial asset is disposed of, or becomes impaired. Changes in fair value for classifications other than AFS are reflected in earnings.

CI has implemented the following classification for financial instruments included in the following accounts:

- Cash is classified as held-for-trading and recorded at fair value.
- Client and trust funds on deposit, accounts receivable and other assets are classified as loans and receivables and are measured at amortized cost. The initial measurement gave rise to a transition adjustment to the deficit, beginning of period of $81 (net of future income taxes of $39).
- Marketable securities are classified as available-for-sale and measured at fair value reflecting unrealized gains and losses on these securities. The initial measurement resulted in unrealized losses of $231 (net of future income taxes of $119) reflected as the opening balance of accumulated comprehensive loss.
- Accounts payable, client and trust funds payable and long-term debt are classified as other financial liabilities and measured at amortized cost.

# Notes to Consolidated Financial Statements

*[in thousands of dollars, except per unit amounts]*

MARCH 31, 2007 AND FEBRUARY 28, 2006 (UNAUDITED)

2. SEGMENTED INFORMATION

CI has two reportable segments: Asset Management and Asset Administration. These segments reflect CI's internal financial reporting and performance measurement.

The Asset Management segment includes the operating results and net assets of CI Investments Inc. and United Financial Corporation, which derive their revenues principally from the fees earned on the management of several families of mutual and segregated funds.

The Asset Administration segment includes the operating results and net assets of Assante Wealth Management (Canada) Ltd. and its subsidiaries, including Assante Capital Management Ltd., Assante Financial Management Ltd. and IQON Financial Management Inc. These companies derive their revenues principally from commissions and fees earned on the sale of mutual funds and other financial products, and ongoing service to clients.

*[in thousands of dollars, except per unit amounts]*

| For the three months ended March 31, 2007 | Asset Management | Asset Administration | Intersegment Eliminations | Total |
|---|---|---|---|---|
| Management fees | 314,567 | – | – | 314,567 |
| Administration fees | – | 72,069 | (31,251) | 40,818 |
| Other revenues | 10,647 | 3,005 | – | 13,652 |
| Total revenue | 325,214 | 75,074 | (31,251) | 369,037 |
| | | | | |
| Selling, general and administrative | 61,158 | 12,268 | – | 73,426 |
| Trailer fees | 92,477 | – | (3,458) | 89,019 |
| Investment dealer fees | – | 58,315 | (26,404) | 31,911 |
| Amortization of deferred sales commissions and fund contracts | 28,382 | 376 | (615) | 28,143 |
| Other expenses | 1,628 | 180 | – | 1,808 |
| Total expenses | 183,645 | 71,139 | (30,477) | 224,307 |
| Income before income taxes and non-segmented items | 141,569 | 3,935 | (774) | 144,730 |
| Interest expense | | | | (7,647) |
| Recovery of income taxes | | | | 5,039 |
| Net income for the period | | | | 142,122 |
| | | | | |
| Identifiable assets | 1,808,424 | 42,536 | (12,733) | 1,838,227 |
| Goodwill | 815,303 | 135,723 | – | 951,026 |
| Total assets | 2,623,727 | 178,259 | (12,733) | 2,789,253 |

# Notes to Consolidated Financial Statements

*[in thousands of dollars, except per unit amounts]*

MARCH 31, 2007 AND FEBRUARY 28, 2006 (UNAUDITED)

| For the three months ended February 28, 2006 | Asset Management | Asset Administration | Intersegment Eliminations | **Total** |
|---|---|---|---|---|
| Management fees | 277,511 | – | – | 277,511 |
| Administration fees | – | 63,779 | (28,432) | 35,347 |
| Other revenues | 14,252 | 3,318 | – | 17,570 |
| Total revenue | 291,763 | 67,097 | (28,432) | 330,428 |
| Selling, general and administrative | 80,205 | 13,349 | – | 93,554 |
| Trailer fees | 75,860 | – | (4,048) | 71,812 |
| Investment dealer fees | – | 49,339 | (22,746) | 26,593 |
| Amortization of deferred sales commissions and fund contracts | 21,158 | 376 | (429) | 21,105 |
| Other expenses | 1,434 | 146 | – | 1,580 |
| Total expenses | 178,657 | 63,210 | (27,223) | 214,644 |
| Income before income taxes and non-segmented items | 113,106 | 3,887 | (1,209) | 115,784 |
| Interest expense | | | | (3,247) |
| Provision for income taxes | | | | (39,441) |
| Net income for the period | | | | 73,096 |

| As at December 31, 2006 | | | | |
|---|---|---|---|---|
| Identifiable assets | 1,761,965 | 38,370 | (11,959) | 1,788,376 |
| Goodwill | 815,303 | 135,723 | – | 951,026 |
| Total assets | 2,577,268 | 174,093 | (11,959) | 2,739,402 |

# Notes to Consolidated Financial Statements

*[in thousands of dollars, except per unit amounts]*

MARCH 31, 2007 AND FEBRUARY 28, 2006 (UNAUDITED)

3. UNIT CAPITAL

a) Authorized

i. An unlimited number of Trust units of CI,
ii. A limited number of Class B limited partner units ("Exchangeable LP units") of Canadian International LP, and special voting units of CI.

b) Issued

A summary of the changes to CI's unit capital is as follows:

| Units | Number of Units (thousands) | Stated Value $ |
|---|---|---|
| Trust units, Balance, December 31, 2006 | 133,674 | 788,513 |
| Issuance of unit capital | 1 | 37 |
| Unit repurchase | (195) | (1,149) |
| Conversion from Exchangeable LP units | 666 | 3,929 |
| Trust units, Balance, March 31, 2007 | 134,146 | 791,330 |
| Exchangeable LP units, Balance, December 31, 2006 | 146,459 | 863,959 |
| Conversion to Trust units | (666) | (3,929) |
| Exchangeable LP units, Balance, March 31, 2006 | 145,793 | 860,030 |
| Total | 279,939 | 1,651,360 |

c) Employee incentive equity option plan

The share options issued pursuant to CI's Employee Incentive Stock Option Plan ("the Plan") as amended and restated on June 30, 2006, were exchanged for Trust options that are the economic equivalent of the exchanged options (except that the Trust options will be exercised for Trust units, rather than common shares).

A summary of the changes in the Plan is as follows:

| | Number of Options (thousands) | Weighted average exercise price $ |
|---|---|---|
| Options outstanding December 31, 2006 | 4,539 | 16.30 |
| Options exercised | (249) | 12.07 |
| Options outstanding, March 31, 2007 | 4,290 | 16.55 |
| | | |
| Options exercisable, March 31, 2007 | 1,525 | 15.24 |

# Notes to Consolidated Financial Statements

*[in thousands of dollars, except per unit amounts]*

MARCH 31, 2007 AND FEBRUARY 28, 2006 (UNAUDITED)

Options outstanding and exercisable as at March 31, 2007 are as follows:

| Exercise price ($) | Number of options outstanding (thousands) | Weighted average remaining contractual life (years) | Number of options exercisable (thousands) |
|---|---|---|---|
| 10.51 | 228 | 1.0 | 228 |
| 11.27 | 109 | 0.1 | 109 |
| 12.01 | 109 | 0.2 | 109 |
| 15.59 | 976 | 2.0 | 290 |
| 15.67 | 5 | 2.5 | – |
| 17.04 | 1,087 | 3.2 | 484 |
| 18.15 | 1,776 | 3.3 | 305 |
| 10.51 to 18.15 | 4,290 | 2.7 | 1,525 |

d) Earnings per unit

The weighted average number of units outstanding were as follows:

| (thousands) | For the three months ended March 31, 2007 | For the three months ended February 28, 2006 |
|---|---|---|
| Basic and diluted | 280,036 | 285,702 |

e) The following table presents the maximum number of units that would be outstanding if all the outstanding options as at April 30, 2007 were exercised:

| (thousands) | |
|---|---|
| Units outstanding at April 30, 2007 | 282,356 |
| Options to purchase Trust units | 3,902 |
| | 286,258 |

# Notes to Consolidated Financial Statements

*[in thousands of dollars, except per unit amounts]*

MARCH 31, 2007 AND FEBRUARY 28, 2006 (UNAUDITED)

4. RELATED PARTY TRANSACTIONS

CI enters into transactions related to the advisory and distribution of its mutual and segregated funds with Sun Life Assurance Company of Canada ("Sun Life"), a unitholder of CI. These transactions are in the normal course of operations and have been recorded at the agreed upon exchange amounts. During the three month period ended March 31, 2007, CI incurred charges for deferred sales commissions of $16,781 (three months ended February 28, 2006 - $12,308), and trailer fees of $24,717 (three months ended February 28, 2006 - $19,808) to Sun Life. The balance payable to Sun Life as at March 31, 2007 of $8,302 (December 31, 2006 - $7,799) is included in accounts payable and accrued liabilities.

5. FUTURE ACCOUNTING CHANGES

The Accounting Standards Board of the CICA recently issued Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, all applicable for annual and interim periods relating to fiscal years beginning on or after October 1, 2007. Section 1535 introduces new disclosure requirements surrounding an entity's objectives, policies and processes for managing capital. Section 3862 and Section 3863 build on Section 3861 and provide presentation and disclosure requirements for financial instruments. CI will adopt the new standards on January 1, 2008, however they are not expected to have a significant impact to the consolidated financial statements of CI.

6. SUBSEQUENT EVENTS

On April 4, 2007, CI acquired Rockwater Capital Corporation ("Rockwater"), a full service investment dealer and portfolio management company, for consideration of approximately $250 million, including assumed debt. CI will consolidate results from Rockwater effective this date and will include these results with its second quarter report.

On April 9, 2007, the revolving credit facility was amended for syndication to two Canadian chartered banks and to increase the amount that may be borrowed to $900,000 in conjunction with the closing of the Rockwater acquisition.

On May 10, 2007, the Board of Trustees declared a monthly cash distribution of $0.18 per unit payable on June 15, July 13 and August 15, 2007.

*This 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.*

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