



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn
Natural Resources Fund Inc.,
Class B, Series 1
(CC&L Balanced Portfolio Class)**

Annual Report

June 30, 2010

Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1 (CC&L Balanced Portfolio Class) Message to Shareholders

September 27, 2010

Dear Investor,

I am pleased to provide the first annual report for the Connor, Clark & Lunn Balanced Portfolio Class (the “Fund”) for the period from commencement of operations on April 20, 2010 to June 30, 2010. The Fund was established as an additional class of Connor, Clark & Lunn Natural Resources Fund Inc. on April 20, 2010. In order to be more cost effective, the new Fund invests in the institutional class of the Connor, Clark & Lunn Balanced Portfolio (the “Portfolio”) that is managed by Connor, Clark & Lunn Managed Portfolios Inc. (“MPI”). There is no duplication of fees as MPI is paid out of the Fund’s management fee.

The Portfolio seeks to generate modest growth of capital while utilizing fixed income investments to stabilize returns. The Portfolio is broadly diversified across different types of equity and fixed income securities. Equity securities are employed to provide capital growth while fixed income investments limit year to year variability of returns. MPI has retained the services of a number of specialized portfolio managers to help it achieve these objectives, each with its own specialised area of investment expertise. Connor, Clark & Lunn Private Capital Ltd. (“CCLPC”) has been retained to determine the appropriate asset allocation of invested funds across the various asset classes. Each of the following portfolio managers have been retained to determine asset allocation or to invest the assets allocated to their asset class with full authority and responsibility for security selection:

- Connor, Clark & Lunn Investment Management Ltd. – Canadian equities (growth at a reasonable price, known as GARP), fixed income and income trusts
- Connor, Clark & Lunn Private Capital Ltd. – asset allocation
- New Star Canada Inc. – EAFE equities
- PCJ Investment Counsel Ltd. – Canadian equities (small cap)
- Scheer, Rowlett & Associates Investment Management Ltd. – Canadian equities (value)
- Baker Gilmore & Associates Inc. – Fixed income (short term)
- Gyrus Investment Management Inc. – U.S. equities

In its capacity as portfolio manager responsible for asset allocation, CCLPC will monitor and periodically rebalance the Portfolio’s underlying investments in order to maintain the strategic target asset allocation and, CCLPC may, in its sole discretion, based in part upon any modelling, testing and asset allocation services, change the strategic target allocations and/or add or remove asset classes in order to meet the objectives of the Portfolio.

The Fund is available for sale through investment dealers and financial planners via Fundserv code CCL200. Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to good performance as the Fund matures.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Natural Resources Fund Inc.

Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1 (CC&L Balanced Portfolio Class) (the “Fund”), contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) to the following address: Connor, Clark & Lunn Capital Markets Inc., Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager’s website at www.cclcapitalmarkets.com or by visiting www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure

Any reference to “Net Assets” or “Net Assets per Share” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accepted Principles “GAAP” for financial statements purposes. Any reference to “Net Asset Value” or “Net Asset Value per Share” or “Transactional NAV” means that the value was determined for valuation and transactional purposes.

Investment Objectives and Strategy

Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1 (CC&L Balanced Portfolio Class) (the “Fund” or “Class B”) is a class of shares issued by the Connor, Clark & Lunn Natural Resources Fund Inc. (the “Corporation”) (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). The Fund seeks to generate modest growth of capital by investing in a broadly diversified portfolio of equity and fixed income securities. Investors in Connor, Clark & Lunn’s flow-through limited partnerships receive Connor, Clark & Lunn Natural Resources Fund Inc., Class A Shares (the “Class A”) pursuant mutual fund roll-over transactions. Holders of Class A Shares can switch into Class B Shares on a tax-deferred basis and vice versa.

In order to invest the portfolio in a cost efficient manner proceeds from the issuance of Class B Shares were invested in the institutional class of CC&L Balanced Portfolio (the “Balanced Portfolio”), an open ended mutual fund organized under the laws of Ontario and managed by Connor, Clark & Lunn Managed Portfolios Inc. (the “Investment Manager”). The Balanced Portfolio seeks to generate modest growth of capital while utilizing fixed income investments to stabilize returns. The Balanced Portfolio is broadly diversified across different types of equity and fixed income securities. Equity securities are employed to provide capital growth while fixed income investments limit year to year variability of returns.

Risk

The risks of investing in the Fund remain as discussed in the Fund’s Simplified Prospectus.

Caution regarding forward-looking statements

The analysis in this document includes forward looking statements. The use of any of the words anticipate, may, will, expect, estimate, should, believe and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of Manager and the Balanced Portfolio’s portfolio managers regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Portfolio, and are based on information available at the time of writing. The Fund’s Manager believes that the expectations reflected in these forward-looking statements and in the analysis are reasonable, but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or

analysis.

Recent Developments

Future accounting changes

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the International Financial Reporting Standards (“IFRS”) will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on July 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Share as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

In May 2010, the AcSB proposed to defer IFRS for entities that currently apply AcG-18, *Investment Companies*, under Canadian GAAP. The Fund currently applies AcG-18. If this proposal is adopted, the Fund will delay adoption of IFRS until fiscal year beginning July 1, 2012.

Harmonized Sales Tax

The Government of Ontario introduced a harmonized sales tax (HST) on July 1, 2010. The HST rate will be 13% of which 5% will represent the federal part and 8% the provincial part.

These changes will increase the amount of taxes paid by the Fund on its expenses, and therefore increase the MER after the legislation comes into effect.

Results of Operations

The Investment Manager’s Commentary of the Balanced Portfolio

To achieve the objectives of the Balanced Portfolio, the Investment Manager has retained the services of a number of specialized portfolio managers, each with its own specialized area of investment expertise. Each of the following portfolio managers have been retained to determine asset allocation or to invest the assets allocated to their asset class with full authority and responsibility for security selection:

- Baker Gilmore & Associates Inc. (“BGA”): Fixed income (short-term)
- Connor, Clark & Lunn Investment Management Ltd. (“CCLIM”): Canadian equities (growth at a reasonable price, known as “GARP” and income trusts and dividend paying shares, known as “Income & Growth”) and fixed income (core)
- Connor, Clark & Lunn Private Capital Ltd. (“CCLPC”): Asset allocation
- Gyrus Investment Management Ltd. (“Gyrus”): U.S. equities
- New Star Canada Inc. (“New Star”): Europe, Australia and Far East (“EAFE”) equities
- PCJ Investment Counsel Ltd. (“PCJ”): Canadian equities (small capitalization or “small-cap”)
- Scheer, Rowlett & Associates Investment Management Ltd. (“SRA”): Canadian equities (value)

As of June 30, 2010, the Balanced Portfolio held \$50.3 million in total net assets. The following commentary reflects performance of and changes to the Balanced Portfolio for the first half of the year. During the past six-month period, investors who held Series I units of the Portfolio experienced a return of 1.61%. The blended benchmark for the portfolio (40% DEX Universe Bond, 30% MSCI World (excluding Canada), 25% S&P/TSX Composite, 5% DEX 91 Day T-bill) returned -1.54% over the same period.

The Portfolio is broadly diversified across a number of asset classes. The changes in the composition of the Portfolio are carefully monitored and managed by the team of investment specialists at CCLPC, to whom the manager has entrusted the responsibility for actively managing asset allocation.

The individual managers of the various asset classes have achieved various levels of performance throughout the past six months. The impact of their out or underperformance of their policy benchmarks will impact the Portfolio returns as a whole, but because of the active nature of the asset allocation strategy, it is important to note that the magnitude of their performance relative to the Portfolio will vary depending on the asset allocation weight at any point in time.

Canadian Equities

For the first six months of 2010, the Canadian equity (GARP) manager underperformed their benchmark. The asset class achieved a return of -5.45% while the benchmark S&P/TSX Composite Index returned -2.55%.

From CCLIM's perspective as portfolio manager of this asset class, the economic news points to signs of slower global economic growth. As a result, a number of trades were undertaken to reduce the Portfolio's overweight to the economically sensitive sectors, for example, the reduction in the position of Canadian Pacific Railway Ltd. Despite the weak equity market performance in the second quarter, a number of stocks reached the target prices that were established for them and were sold into strength.

Two of the better performers were Rogers Communications Inc. and Bank of Montreal. Rogers Communications Inc., which has now been eliminated from the Portfolio, was the portfolio manager's top pick in the communications sector over the past year and performed very well. It was purchased when the market had concerns over the impending impact of new entrants into the Canadian wireless market. As these concerns abated and the company produced strong results, the company's valuation moved to a premium relative to their Canadian and U.S. peers, thus resulting in the decision to sell. The Bank of Montreal was purchased with the expectation that its credit portfolio would improve along with the economy and the valuation discount it carried relative to its peers would begin to shrink. This has now happened and as such its weight in the Portfolio has been significantly reduced. Alimentation Couche-Tard and Telus Corp. have become prominent holdings in the Portfolio and holdings in Barrick Gold Corp. were sold in favour of Goldcorp Inc. and Agnico-Eagle Mines Ltd.

On the Canadian equity (value) side, the portfolio manager underperformed the broader market to the end of June 30, 2010. The asset class achieved a return of -4.35% while the benchmark S&P/TSX Composite Index returned -2.55%.

A reversal in market sentiment mid-June 2010 had a negative impact on the Portfolio's performance. Despite the portfolio manager's view that compelling valuations had positioned the Portfolio to take advantage of an economic recovery and a return to normalcy, this did not materialize during the quarter. SRA still believes that this will occur only that the timeline has been pushed out. Performance from security selection was mixed during the quarter. Gains in Materials sector were aided by a decision by Gerdau SA (Brazil) to purchase the remaining 33% of Gerdau Ameristeel Corp. at a 50% premium.

In Telecommunication Services sector, the portfolio manager's decision to sector overweight (preference for wireless) added value as the sector outperformed the market by 9%. Both Telus Corp. and Rogers Communications Inc. reported in-line earnings, and the perceived threat of the new wireless entrants (Wind, Mobilicity, & Public) stealing customers failed to materialize as they faced network and start-up issues. With the decline in Research In Motion Ltd. ("RIM") (-30%), SRA took the opportunity to reduce our underweight (after the decline) and move to a market weight position. At those levels the valuation was cheap and while the portfolio manager continues to believe RIM's outlook is unclear given the speed of change in technology and the competition from Apple's iPhone, at such a large discount and valuation it was felt the increased weighting was warranted.

Portfolio exposure to small-cap Canadian equities was positive over the quarter, returning 1.21% versus a 0.06% return of the benchmark S&P TSX SmallCap Index.

Canadian equity (small-cap) portfolio manager PCJ was concerned as the slowdown in the global economic recovery took its toll on equity markets during latter stages of the second quarter. The Eurozone had its hands full with the sovereign debt crisis and England enacted its own austerity budget. To be sure, the rest of the data that has come out over the past two months has been less than encouraging. In particular, the mood of the U.S. consumer has been damaged as evidenced by the cooling in the housing market and in retail sales. The earnings picture continues to be very robust but investors are not convinced of its sustainability. The market mood turned decidedly negative as fears of a double dip recession gained greater traction. Meanwhile, corporations are reporting strong earnings and are in excellent financial shape with record levels of cash on their balance sheets. The equity markets have climbed a long way back from their 2009 bottom but more recent nervousness is being reflected in market volatility.

For the six-month period ending June 30, 2010, our Income & Growth asset class returned 1.18%, easily outpacing its

benchmark S&P/TSX Composite Index by 3.73%. This is the asset class that seeks to generate yield for investors buy purchasing dividend yielding equity investments, real estate investment trusts (“REITs”) and income trusts.

The portfolio manager, CCLIM, made a number of changes to the asset class during the second quarter, reducing exposure to dividend-paying equities in favour of income trusts and REITs and further enhancing the defensive positioning within each of the components. The Portfolio is focused on companies with limited exposures to commodities, favouring utilities over materials within the equities space, and the portfolio manager is looking at apartments within the trust sector. The apartment REITs and real estate are the most defensive property class and are currently benefitting from low utility costs and rising rents. They are also trading at a huge discount to U.S. apartment REITs. The asset class also yielded 5.9% in tax-preferred income to investors over the first half of 2010.

Global Equities

The EAFE equity component of the Portfolio outperformed its benchmark through a challenging period, returning -11.63% to the benchmark MSCI EAFE index return of -11.74%.

According to EAFE equity portfolio manager, New Star, international equity markets had much to contend with during the first half of 2010. Concerns over the fiscal crisis in Greece threatened contagion throughout the European bloc and created a risk-averse environment across multiple asset classes. Matters were not helped by economic data that suggests a moderation in the economic recovery, volcanic dust clouds grounding flights over much of Europe, and a badly managed oil leak in the Gulf of Mexico. All this, combined with a less supportive liquidity backdrop, led to a 9.66% decline in EAFE (Canadian dollar terms). Five out of nine sectors outperformed.

The weakest sectors were Energy and Materials as talk of a double dip recession re-surfaced, an ill-conceived super-tax was announced on miners operating in Australia, and China showed signs of slowing economic growth. Financials also suffered from concerns over European banks’ sovereign debt exposure. New Star continues to favour Industrials and Consumer Discretionary against underweight positions in European commercial banks and low growth areas such as Telecommunications and Utilities. Economic upswings normally hit a soft patch after about twelve months but we are not convinced that fiscal tightening will tip the global economy back into a recession. The U.K. weighting has moved to overweight position and strategically, the portfolio manager still favours Asia ex-Japan and emerging markets. Over the near term, continental Europe could potentially show signs of recovery relative to other markets as they benefit from domestic liquidity and a weaker currency.

The situation is somewhat different in the U.S., where, portfolio manager Gyrus underperformed the S&P 500 Index by -1.07%.

Despite positive gains in the first quarter, the S&P 500 lost nearly 12% during the second quarter. The quarter started well as earnings fulfilled expectations, however, events in Europe and the Gulf of Mexico oil spill have taken their toll on investor sentiment. Materials (-15.7%), Financials (-13.6%), and Energy (-13.2%) were the worst performing sectors for the quarter. However, as markets prepare for second quarter earnings releases, investors are reminded that many corporate balance sheets are in the best condition that they have ever been. A renewed focus on the fundamentals should provide support to the market and the portfolio manager looks for positive returns from the U.S.

Gross domestic product (“GDP”) growth moderated from over 5% in the fourth quarter 2009 to 2.7% in the first quarter of 2010 with many economists calling for 3% growth for the remainder of this year. Gyrus agrees with this forecast as a host of economic indicators remain positive, including industrial production, which has been positive since mid-2009. For the recovery to become sustainable, further improvement in the employment market is crucial. Early in the quarter the unemployment rate dropped from 10.0% to 9.5% and the manager believes that the employment picture is poised to improve further as employers’ intentions to hire and CEO sentiment surveys remain positive. Housing related activity also took a breather as inventories were worked down and government incentives expired. A moderate growth trajectory is still the most likely scenario as inflation remains low and central banks continue to keep interest rates low in order to stimulate growth.

Fixed Income

Our short-term fixed income portfolio manager, BGA, outperformed their benchmark DEX 91-day T-bill index during the first half of 2010. BGA returned 2.49% against the benchmark’s 2.17%.

From the portfolio manager’s perspective, the jump in volatility and risk aversion pushed government bond prices higher

and credit spreads modestly wider. The real economy in the U.S. has so far shown limited impact from the crisis in Europe, while the Canadian economy has continued to outpace expectations. The Bank of Canada raised its overnight rate by 25 basis points to 0.50% on June 1, 2010, in response to the solid domestic economic performance. However, it adopted a more cautious outlook in the statement accompanying the rate announcement given the ongoing crisis in Europe and the rise in market volatility. The manager expects that the massive issuance of government debt in the coming years will put upward pressure on government bond yields and force the Bank of Canada to gradually raise interest rates, and so have maintained defensive strategies within the portfolio. Currently, the portfolio is overweight high-grade Financials and AAA-rated asset-backed securities as they continue to be more attractive relative to sovereign bonds and BBB-rated corporate bonds.

On the core fixed income side, investors benefitted from strong outperformance 5.31% over the benchmark DEX Universe Bond Index, which returned 4.22%. The portfolio manager, CCLIM, was able to successfully navigate volatile markets as interest rates reached both extremes of their expected range during the period. After climbing towards the upper end of the range, longer-term rates fell to the lower end of the range as a combination of heightened volatility and mixed economic news led to increased demand for the relative safety of bonds. Shorter-term yields lifted higher after the Bank of Canada raised their key interest rates at the beginning of June 2010. The manager remains focused on maturities in the 7 to 10 year area, which they believe continue to offer the most attractive opportunities from a risk/reward perspective. Provincial exposure was also increased to an overweight position as valuations became more attractive during the quarter. Our preferences are for provinces with relatively strong fundamentals such as British Columbia and Alberta. The Portfolio's overweight in corporate bonds was reduced.

Investment Income and Capital Gains

During the period from April 20, 2010 (commencement of operations) to June 30, 2010, the Fund had net investment gain of \$283. In addition, the portfolio had a \$11,620 unrealized losses on its investments. Investment gains, and unrealized losses combined for a total decrease in net assets from operations of \$11,337, or \$0.62 per Class A Share.

Capital transactions

The Fund is authorized to issue unlimited number of Class B Shares pursuant to the simplified prospectus dated March 26, 2010. On April 20, 2010, \$150,000 was raised through the issue of 15,000 Shares at \$10.00 per Share.

Holder of Class A Shares can switch into Class B Shares on a tax-deferred basis and vice versa. During the period from April 20, 2010 (commencement of operations) to June 30, 2010, \$495,938 was transferred from Class A in exchange for 50,985 Class B shares.

Distributions

The Fund may pay an annual distribution on or after the Fund's tax year-end.

Related Party Transactions

Management Fees

Pursuant to a management agreement ("the Management Agreement") the Fund retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 2.00% per annum of the net asset value of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund during the period from April 20, 2010 to June 30, 2010 were \$697.

The Manager pays the Investment Manager out of the above management fees.

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period from April 20, 2010 (commencement of operation) to June 30, 2010.

Summary of Investment Portfolio as of June 30, 2010

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund.

A quarterly update is available at www.cclcapitalmarkets.com and www.sedar.com.

Portfolio by Category	Market Value \$	% of NAV
Mutual funds	631,630	99.5%
Cash	247,213	38.9%
Top 25 Holdings		
CC&L Balanced Portfolio, Series I	631,630	99.5%
Cash	247,213	38.9%
Net asset value (NAV)	635,335	

Summary of Investment Portfolio of the CC&L Balanced Portfolio as of June 30, 2010

Note that the proceeds from the issuance of the Fund's Shares were invested in the securities of the CC&L Balanced Portfolio, Series I. The following is a summary of the investment portfolio of the CC&L Balanced Portfolio as of June 30, 2010:

Portfolio by Category	Market Value \$	% of NAV
Canadian equity	13,628,219	27.1%
U.S. equity	7,114,073	14.2%
International equity	5,174,138	10.3%
Canadian fixed income	19,116,249	38.0%
International fixed income	1,373,280	2.7%
Cash and cash equivalents	5,488,845	10.9%
Other assets (liabilities)	-1,610,183	-3.2%
Top 25 Holdings		
Cash	1,544,436	3.1%
Ontario 4.750% June 2, 2013	1,134,077	2.3%
TD Capital Trust (CATS III) 7.243% December 31, 2018	981,747	2.0%
Canada 5.750% June 1, 2029	933,681	1.9%
Bank of Nova Scotia BDN August 6, 2010	898,542	1.8%
Toronto-Dominion Bank	864,319	1.7%
Royal Bank of Canada	853,282	1.7%
Ontario 4.200% June 2, 2020	843,831	1.7%
Canada Housing Trust 4.550% December 15, 2012	808,378	1.6%
Canada 3.500% June 1, 2013	744,292	1.5%
HSBC Bank BDN September 9, 2010	598,914	1.2%
Suncor Energy Inc.	598,184	1.2%
Quebec 4.500% December 1, 2016	556,428	1.1%
GE Capital Canada Funding 5.530% August 17, 2017	516,551	1.0%
Canadian Imperial Bank of Commerce	499,357	1.0%
Ontario 4.400% June 2, 2019	491,852	1.0%
Canadian Natural Resources Ltd.	474,482	0.9%
Bank of Montreal B/A July 29, 2010	449,807	0.9%
Bank of Nova Scotia BDN August 20, 2010	449,289	0.9%
Manulife Financial (Delaware) LP 4.448% December 15, 2016	440,163	0.9%
Canada Housing Trust 3.750% March 15, 2020	431,123	0.9%
Manulife Financial Corp.	413,211	0.8%
Quebec 6.000% October 1, 2029	391,653	0.8%
CIBC B/A August 23, 2010	349,510	0.7%
Royal Bank BDN August 19, 2010	349,465	0.7%
Net asset value (NAV)	50,284,621	

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements:

The Fund's Net Assets per Class A Share:

	June 30, 2010 ⁽¹⁾
Net Assets, beginning of period	10.00
Increase (decrease) from operations:	
Total revenues	0.15
Total expenses	(0.13)
Realized gains (losses) for the period	—
Unrealized gains (losses) for the period	(0.64)
Total increase (decrease) from operations ⁽²⁾	(0.62)
Distributions:	
From income (excluding dividends)	—
From dividends	—
From capital gains	—
Return of capital	—
Total Distributions	—
Net Assets, end of period ⁽³⁾	9.62

⁽¹⁾ Results for the period from April 20, 2010 (commencement of operations) to June 30, 2010.

⁽²⁾ Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of shares outstanding over the financial period.

⁽³⁾ This is not reconciliation between the opening and the closing net assets per share.

Ratios and Supplemental Data:

	June 30, 2010 ⁽¹⁾
Net asset value (000's)	635
Number of shares outstanding	65,985
Management expense ratio (annualized) ⁽²⁾	6.84%
Management expense ratio before waivers or absorptions (annualized) ⁽²⁾	6.84%
Portfolio turnover rate ⁽³⁾	0.00%
Trading expense ratio ⁽⁴⁾	0.00%
Net asset value per Class A Share ⁽⁵⁾	9.63

⁽¹⁾ Results for the period from April 20, 2010 (commencement of operations) to June 30, 2010.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽³⁾ The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

⁽⁴⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

⁽⁵⁾ A reconciliation between GAAP Net Assets and Transactional NAV is available in note 3 of the financial statements.

Management's Responsibility for Financial Reporting

The accompanying financial statements of **Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1 (CC&L Balanced Portfolio Class) (the "Fund" or "Class B")** and all the information have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all the information and representations contained in these financial statements and other sections of the Annual Report.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the shareholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements.



W. Neil Murdoch
President and Chief Executive Officer
Connor, Clark & Lunn Capital Markets Inc.



Michael W. Freund
Director
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

September 27, 2010

September 27, 2010

Auditors' Report

**To the Shareholders of
Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1 (CC&L Balanced
Portfolio Class) (the Fund)**

We have audited the statements of investment portfolio and net assets of the Fund as at June 30, 2010 and the statements of operations and changes in net assets for the period from April 20, 2010 (commencement of operations) to June 30, 2010. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2010 and the results of its operations and changes in its net assets for the period from April 20, 2010 (commencement of operations) to June 30, 2010 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1
(CC&L Balanced Portfolio Class)

Statement of Net Assets

As at June 30, 2010

	\$
Assets	
Cash	247,213
Investments at fair value (cost - \$643,250)	631,630
Mutual fund distributions receivable	1,812
	<u>880,655</u>
Liabilities	
Payable for investment purchases	245,000
Accounts payable and accrued liabilities	357
Management fees payable	697
	<u>246,054</u>
Net Assets and Shareholders' Equity	<u>634,601</u>
Shares issued and outstanding (note 5)	<u>65,985</u>
Net assets per Class B share	<u>9.62</u>
Shareholders' Equity	
Share capital (note 5)	645,938
Surplus (deficit)	(11,337)
Total Shareholders' Equity	<u>634,601</u>

Approved by the Manager



Director



Director

Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1
(CC&L Balanced Portfolio Class)

Statement of Operations

For the period from April 20, 2010 (inception date) to June 30, 2010

	\$
Income	
Mutual fund distributions	<u>2,653</u>
Expenses	
Transfer agent fees	828
Management fees (note 6)	697
Custodial and other shareholders' fees	505
Service fees (note 6)	172
Legal fees	112
Other	<u>56</u>
	<u>2,370</u>
Investment income (loss) for the period	283
Net unrealized gain (loss) on investments	
Unrealized gain (loss) on investments	<u>(11,620)</u>
Increase (decrease) in net assets from operations	<u>(11,337)</u>
Increase (decrease) in net assets from operations per share *	<u>(0.62)</u>

* (based on average number of shares outstanding during the period)

Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1
(CC&L Balanced Portfolio Class)

Statement of Changes in Net Assets

For the period from April 20, 2010 (inception date) to June 30, 2010

	\$
Increase (decrease) in net assets from operations	(11,337)
Shareholders' transactions (note 4):	
Sale of shares	150,000
Transfers from Class A shares	<u>495,938</u>
	<u>645,938</u>
Change in net assets during the period	<u>634,601</u>
Net assets - Beginning of period	<u>-</u>
Net assets - End of period	<u>634,601</u>
Surplus (deficit), beginning of period	-
Increase (decrease) in net assets from operations	<u>(11,337)</u>
Surplus (deficit), end of period	<u>(11,337)</u>

**Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1
(CC&L Balanced Portfolio Class)**

Statement of Investment Portfolio

As at June 30, 2010

	Quantity	Average Cost \$	Fair Value \$	% of Net Assets
Investments				
Mutual funds				
CC&L Balanced Portfolio, Series I ^(*)	78,112	<u>643,250</u>	<u>631,630</u>	<u>99.5%</u>
Total investments		<u>643,250</u>	<u>631,630</u>	<u>99.5%</u>
Other assets less liabilities			<u>2,971</u>	<u>0.5%</u>
Net assets			<u>634,601</u>	<u>100.0%</u>

(*) Segment breakdown of the CC&L Balanced Portfolio

Canadian equity			13,628,219	27.1%
U.S. equity			7,114,073	14.2%
International equity			5,174,138	10.3%
Canadian fixed income			19,116,249	38.0%
International fixed income			1,373,280	2.7%
Cash and cash equivalents			5,488,845	10.9%
Other assets (liabilities)			<u>(1,610,183)</u>	<u>(3.2)%</u>
			<u>50,284,621</u>	<u>100.0%</u>

Connor, Clark & Lunn Natural Resources Fund Inc. Class B, Series 1 (CC&L Balanced Portfolio Class)

Notes to Financial Statements

June 30, 2010

1 Formation of Partnership

Connor, Clark & Lunn Natural Resources Fund Inc., Class B, Series 1 (CC&L Balanced Portfolio Class) (the “Fund” or “Class B”) is a class of shares issued by the Connor, Clark & Lunn Natural Resources Fund Inc. (the “Corporation”) (a corporation incorporated under the laws of Province of Ontario on September 11, 2009 pursuant to articles of incorporation). Investors in Connor, Clark & Lunn’s flow-through limited partnerships receive Connor, Clark & Lunn Natural Resources Fund Inc., Class A Shares (the “Class A”) pursuant to a mutual fund roll-over transaction. Holders of Class A Shares can switch into Class B Shares on a tax-deferred basis and vice versa.

Pursuant to a management agreement dated September 30, 2009, Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) (The Manager is part of the Connor, Clark & Lunn Financial Group) has been retained by the Fund to provide investment advisory and portfolio management services to the Fund and to manage the ongoing business and administrative affairs of the Fund.

2 Investment objectives

The Fund seeks to generate modest growth of capital by investing in a broadly diversified portfolio of equity and fixed income securities. Proceeds from the issuance of Class B Shares are invested in the securities of the CC&L Balanced Portfolio (the “Balanced Portfolio”), an open-end trust organized under the laws of Ontario. The Balanced Portfolio seeks to generate modest growth of capital while utilizing fixed income investments to stabilize returns. The Balanced Portfolio is broadly diversified across different types of equity and fixed income securities. Equity securities are employed to provide capital growth while fixed income investments limit year to year variability of returns.

To achieve the objectives of the Balanced Portfolio, its manager, Connor, Clark & Lunn Managed Portfolios Inc. (the “Investment Manager”), has retained the services of a number of specialized portfolio managers, each with its own specialized area of investment expertise. Each of the following portfolio managers have been retained to determine asset allocation or to invest the assets allocated to their asset class with full authority and responsibility for security selection:

- Baker Gilmore & Associates Inc. (“BGA”): Fixed income (short-term)
- Connor, Clark & Lunn Investment Management Ltd. (“CCLIM”): Canadian equities (growth at a reasonable price, known as “GARP” and income trusts and dividend paying shares, known as “Income & Growth”) and fixed income (core)
- Connor, Clark & Lunn Private Capital Ltd. (“CCLPC”): Asset allocation
- Gyrus Investment Management Ltd. (“Gyrus”): U.S. equities
- New Star Canada Inc. (“New Star”): Europe, Australia and Far East (“EAFE”) equities
- PCJ Investment Counsel Ltd. (“PCJ”): Canadian equities (small capitalization or “small-cap”)
- Scheer, Rowlett & Associates Investment Management Ltd. (“SRA”): Canadian equities (value)

As of June 30, 2010, the Balanced Portfolio held \$50.3 million in total net assets.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Future accounting changes

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the International Financial Reporting Standards (“IFRS”) will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on July 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund’s current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Share as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

In May 2010, the AcSB proposed to defer IFRS for entities that currently apply AcG-18, Investment Companies, under Canadian GAAP. The Fund currently applies AcG-18. If this proposal is adopted, the Fund will delay adoption of IFRS until fiscal year beginning July 1, 2012.

Valuation of Investments

Investments are deemed to be categorized as “held for trading” in accordance with CICA 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) and therefore are recorded at fair value, established by the last bid price for a security on the recognized exchange on which it is principally traded (“GAAP Net Assets”). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers’ commissions and other transaction charges are immediately charged to net income in the period incurred. The Fund calculates its daily Net Asset Value for the purchase and redemption of shares (“Transactional NAV”) based on the fair value of the investment fund’s assets and liabilities (being the last traded price for the day). The Fund did not change its methodology in this respect.

The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Section 3855 is as follows:

Connor, Clark & Lunn Natural Resources Fund Inc. Class B, Series 1 (CC&L Balanced Portfolio Class)

Notes to Financial Statements

June 30, 2010

	<u>Transactional</u> NAV	<u>Section 3855</u> Adjustment	<u>GAAP</u> Net Assets
Per Share			
Closing Value – June 30, 2010	9.63	(0.01)	9.62

Cash & Short Term Investments

Cash includes cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. Income and capital gains distributions from mutual funds are recorded as at the distribution date, in the same form that they were distributed. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives which are deemed held for trading.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars "the functional currency of the Fund" at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Increase (decrease) in net assets from operations per share

"Increase (decrease) in net assets from operations per share" in the statement of operations and the statement of changes in net assets represents the increase (decrease) in net assets from operations, divided by the weighted average shares outstanding for the financial period.

Valuation of Shares

Net assets per share and/or NAVPS on any given day is equivalent to the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund, divided by the number of Shares outstanding on that day. A NAVPS is determined as of the close of business each day that the Toronto Stock Exchange is open for trading. Net assets per share is determined twice annually for financial statement purposes.

4 Shareholders' Equity

The Fund is authorized to issue an unlimited number of Class B shares. Investors in Connor, Clark & Lunn's flow-through limited partnerships receive Connor, Clark & Lunn Natural Resources Fund Inc., Class A Shares (the "Class A") pursuant to a mutual fund roll-over transaction. Holders of Class A Shares can switch into Class B Shares on a tax-deferred basis and vice versa.

If the redemption price is lower than the original issue price the difference is included in "Contributed surplus" on the statement of net assets. If the redemption price is greater than the original issue price, the difference is first charged to "Contributed surplus" until the entire account is eliminated, and the remaining amount is charged to retained earnings (deficit).

The Fund has no restrictions or specific requirements on the subscription and redemption of Class B shares. Class B shares can be purchased and/or redeemed through a dealer as outlined in the prospectus dated March 26, 2010.

Connor, Clark & Lunn Financial Group has subscribed for \$150,000 of Class B Shares. Connor, Clark & Lunn Financial Group will not redeem its Class B Shares until subscriptions aggregating at least \$500,000 have been received by the Fund for Class B Shares from investors (other than the Manager, all the other affiliate companies or their partners, directors, officers or security holders) and accepted by the Fund. As of June 30, 2010, these shares were still outstanding.

Changes in outstanding shares during the period from April 20, 2010 (commencement of operation) to June 30, 2010 are summarized as follows:

	Number of Class A Shares
Opening balance	–
Sales	15,000
Transfers from Class A shares	<u>50,985</u>
Ending balance	<u>65,985</u>

Connor, Clark & Lunn Natural Resources Fund Inc. Class B, Series 1 (CC&L Balanced Portfolio Class)

Notes to Financial Statements

June 30, 2010

The Fund considers capital to include all shares issued and outstanding. The Fund manages its capital in accordance with the objectives outlined in Note (2).

5 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust ("the Custodian") acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund's day-to-day operations, including calculating the Net Asset Value ("NAV"), net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

6 Management fees and other expenses

The Manager receives a Management Fee from the Fund equal to 2.00% per annum of the Net Asset Value of the Fund, which is accrued daily and paid monthly. The management fees charged to the Fund during the period from April 20, 2010 (commencement of operation) to June 30, 2010 were \$697. The Manager pays the Investment Manager out of the above management fees.

The Fund also pays a service fee to dealers whose clients hold Class B Shares in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.50% annually of the Net Asset Value of the Class B Shares held by clients of the dealers. The service fee charged to the Fund during the period from April 20, 2010 (commencement of operation) to June 30, 2010 was \$172.

7 Broker commission charges and soft dollar services

There were no broker commissions paid during the period from April 20, 2010 (commencement of operation) to June 30, 2010 in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

8 Income taxes

The Fund intends to qualify as a mutual fund corporation as defined by the Income Tax Act (Canada). As a mutual fund corporation the Fund is entitled to capital gains refunds in respect of (i) capital gains dividends paid by it; and (ii) qualifying redemptions to the extent that the Fund has paid or is liable to pay Canadian federal income tax on its taxable capital gains. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

9 Financial instruments

Assets	\$
Held for trading	878,843
Loans and receivables	1,812
Total assets	880,655
Liabilities	
Held for trading	-
Financial liabilities at amortized cost	246,054
Total liabilities	246,054

For the purposes of categorization in accordance with Section 3862, mutual fund distributions receivable is deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, payable for investment purchases, accounts payable and accrued liabilities and management fees payable are deemed to be financial liabilities and reported at amortized cost.

The following table illustrates the classification of the Fund's financial instruments within the fair value hierarchy as at June 30, 2010:

Assets at fair value as at June 30, 2010 (\$)	Level 1	Level 2	Level 3	Total
Mutual fund	631,630	-	-	631,630
Total	631,630	-	-	631,630

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

Mutual funds: The Fund's mutual fund investment position is classified as Level 1 as these fund units are actively traded and a reliable quote is observable.

There were no transfers among the three levels during the period from April 20, 2010 (commencement of operation) to June 30, 2010.

Connor, Clark & Lunn Natural Resources Fund Inc. Class B, Series 1 (CC&L Balanced Portfolio Class)

Notes to Financial Statements

June 30, 2010

10 Management of financial risks

Investment Objectives: Proceeds from the issuance of Class B Shares are invested in the securities of the CC&L Balanced Portfolio (the "Balanced Portfolio"), an open-end trust organized under the laws of Ontario. The Balanced Portfolio seeks to generate modest growth of capital while utilizing fixed income investments to stabilize returns. The Balanced Portfolio is broadly diversified across different types of equity and fixed income securities. Equity securities are employed to provide capital growth while fixed income investments limit year to year variability of returns.

The Fund may be exposed to a variety of financial risks which are described below. The Fund's exposure to these risks is concentrated in its investment holdings. In determining the risks that apply, and the extent to which they apply, reference should be made to the Statements of Investment Portfolio. The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio subadvisors that regularly monitor the Fund's holdings, market events and overall economic conditions.

The subadvisors use a variety of means to monitor the Fund including the measurement of specific financial and economic variables pertinent to the Fund. The Fund's risk management program is based on monitoring compliance against investment guidelines contained in the Statements of Investment Policy ("SIPs"). The SIPs are internal documents that outline how each Portfolio is managed. The SIPs state the investment objectives of the Fund (see below) and the investment guidelines. The guidelines include permitted investments, acceptable levels of diversification and the permitted uses of derivatives. Readers are cautioned that the Fund's auditor has not audited or reviewed the SIP, nor has the auditor reviewed compliance with the SIP by the Manager and subadvisors.

Securities are selected with the intent of maximizing returns within the risk parameters defined in the SIPs. On a daily basis, these guidelines and other restrictions are monitored against the positions in the Fund using an electronic compliance system to confirm there are no violations and to ensure market movements do not leave the Fund's holdings outside specified ranges. Corrective action is taken when necessary and any guideline violations are reported to the Manager.

Currency risk

Currency risk is the risk that the value of monetary assets and liabilities denominated in currencies other than the Canadian dollar (the functional currency of the Fund) will fluctuate due to changes in foreign exchange rates. Bonds and short-term investments issued in foreign countries are exposed to that country's currency unless otherwise noted. Bonds, short-term investments and derivatives denominated in foreign currencies are exposed to currency risk as prices are converted to the Fund's functional currency in determining fair value. Foreign equities are not exposed to currency risk for the purposes of Section 3862 since they are considered non-monetary investments. Changes in the market value of these securities due to fluctuations in exchange rates are considered a component of other price risk (see below).

As at June 30, 2010, the Fund's direct exposure to currency risk was negligible as the units of the underlying Balanced Portfolio and other investments are valued in Canadian dollars. The Fund was exposed to indirect currency risk to the extent the underlying Balanced Portfolio holding invests in financial instruments denominated in a foreign currency. If prevailing interest rates had been raised or lowered by 5.0%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets would have decreased or increased by approximately \$400. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

Interest rate risk is the risk that the market value of the Fund's interest-bearing investments will fluctuate due to changes in prevailing interest rates. The longer the term to maturity, all else being equal, the more sensitive a security is to interest rate risk. The Fund's exposure to interest rate risk is concentrated in their investments in debt securities (such as bonds and short-term investments) and interest rate derivative instruments (if any). Other assets and liabilities are short-term in nature and non-interest bearing.

As at June 30, 2010, the Fund's direct exposure to interest risk was negligible as the Fund had no significant exposure to long-term interest-bearing investments. The Fund was exposed to indirect interest rate risk to the extent the underlying Balanced Portfolio holding invests in debt-based securities and interest rate derivative instruments.

If prevailing interest rates had been raised or lowered by 1.0%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets of the fund would have decreased or increased by approximately \$16,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Other price risk

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature and not subject to other price risk.

As at June 30, 2010, the Fund was exposed to other price risk to the extent the underlying Balanced Portfolio invests in securities subject to market fluctuations (not caused by other factors mentioned above). Approximately 51.3% of the Fund's net assets were exposed to other price risk. If stock exchange prices had increased or decreased by 10%, with all other factors remaining constant, net assets of the fund would have increased or decreased by approximately \$32,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. To maximize the credit quality of their investments, the Fund's subadvisors perform ongoing credit evaluations of debt issuers. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Fund's unrealized gain on the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by their carrying amount.

Connor, Clark & Lunn Natural Resources Fund Inc. Class B, Series 1 (CC&L Balanced Portfolio Class)

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June 30, 2010

As at June 30, 2010, the Fund's direct exposure to credit risk was negligible as the Fund had no significant exposure to debt or derivative instruments. The Fund was exposed to indirect credit risk to the extent the underlying Balanced Portfolio invests in such instruments. Approximately 48.4% of the Fund's net assets were exposed to credit risk.

The table below summarizes the Fund's exposure to indirect credit risk resulting from investments in underlying Balanced Portfolio:

Rating ⁽¹⁾	(% of Net Assets)
AAA	12.5%
AA	18.2%
A	15.3%
BBB	2.6%
Total	48.6%

Liquidity risk

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of shares. The Fund invests primarily in securities that can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalents to maintain liquidity. Liquidity risk is considered negligible.

The table below lists the Fund's financial liabilities into relevant maturity groupings based on the remaining period between June 30, 2010 and the expected maturity date.

	Less than 3 months	3 months to 1 year	Greater than 1 year
Payable for investment purchases	\$ 245,000	\$ -	\$ -
Accounts payable and accrued liabilities	357	-	-
Management fees payable	697	-	-
Total	246,054	-	-